France	FFr7.50	Lux	LFr55	Spain	Pta185		
Germany	DM2.20	Malaysia	M$4.25	Sweden	SKr12		
Greece	Dr180	Morocco	MDh8.00	Switz	SFr2.50		
Hungary	Ft167	Neth	Fl 3.25	Thailand	Bt50		
Iceland	IKr160	Nigeria	Naira12	Tunisia	Din0.800		
India	Rs15	Norway	NKr12.00	Turkey	L2000		
Indonesia	Rp3100	Oman	OR1	UAE	Dh7.00		

EUROPE'S BUSINESS NEWSPAPER

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Wednesday December 5 1990

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Industry hits a cultural barrier
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World News

Brussels outlines Soviet food aid plan

The European Commission sketched out to EC foreign ministers plans to help the Soviet Union with more than Ecu1bn ($1.3bn) in short-term food aid and a longer-term western effort to make the rouble convertible. Page 18

President quits

President Hossain Mohammad Ershad of Bangladesh announced his resignation, calling a special session of parliament on Saturday to name a vice-president to head a caretaker government until elections are held. Page 6

Euro security call

Douglas Hurd, UK foreign secretary, called for a more coherent European security policy, to convince an increasingly disenchanted US that its European allies were pulling their weight. Page 2

Policemen killed

Suspected Sikh militants, fighting for an independent homeland in India's Punjab state, shot dead three traffic policemen in Bombay after they had been chased.

French aid poor

President François Mitterrand announced plans to take from the rich and give to the poor as part of attempts to stop crumbling suburbs from becoming ghettoes.

Soviet power share

President Mikhail Gorbachev presented his plans to share power in the Soviet Union with the presidents of the 15 republics, while reinforcing his own supreme position. Page 2

Danish referendum

Denmark will hold a referendum in the first half of 1992 on European Community plans for economic and monetary union, government and opposition spokesmen were quoted as saying.

Strike in Turkey

Turkey's largest ever industrial action, affecting 50,000 coal miners, continued with little prospect of a settlement. Thousands of miners are demanding better working conditions and wage increases of up to 900 per cent. Page 3

Aircraft shot down

Left-wing Salvadorean rebels shot down a government military airplane with a ground-to-air missile in the second such attack in two weeks of fighting during a rebel offensive.

Oil refinery fire

Fire damage appears to have hit output badly at Saudi Arabia's Ras Tannurah oil refinery, the world's biggest and the main supplier of aviation fuel for the multinational forces based in the kingdom. Page 6

'Thousands executed'

Thousands of political prisoners have been secretly killed on the orders of a "death commission" in Iran, Amnesty International said. Page 6

Germ warfare deal

Congressional investigators say they have uncovered evidence that US companies sold bacteria and an advanced computer for missile tests to an Iraqi institution specialising in research into nuclear and germ warfare.

Coup foiled

Mauritania said it had foiled a coup planned for last month and arrested an unspecified number of plotters.

Tax free crime

Sicilian shopkeepers and business owners, angry that they have to pay protection money to the Mafia on top of taxes, have suggested that extortion should be tax deductible.

Business Summary

Deutsche Bank reveals DM4.13bn profit

Deutsche Bank, biggest bank in Germany disclosed for the first time the full extent of its total operating profits, revealing a 6 per cent increase to DM4.13bn ($2.7bn) for the first ten months of 1990, though trading profits were hit badly by the Gulf crisis. Page 19

EUROPEAN Commission is finalising plans to curb the monopoly of national post offices. Page 18

DEERE, world's largest maker of farm equipment, reported a 27.8 per cent fall in fourth-quarter net income on revenues which rose 3.5 per cent. Page 19

WEST GERMANY'S economy leapt ahead in the third quarter of this year at its fastest rate for 14 years with a 5.5 per cent increase in gross national product. Page 3

GIAT Industries, French arms group, and Usinor Sacilor, steel producer, are studying a possible link-up between their armoured vehicle businesses. Page 19

ROYAL BANK OF CANADA, Canada's largest financial institution, saw annual fiscal income fall 11 per cent, before Third World loan provision. Page 21

EUROPEAN Commission has sketched out plans to help the Soviet Union with more than Ecu1bn ($1.36bn) in short-term food aid and a longer-term western effort to make the rouble convertible. Page 18

FREEPORT-McMORAN, New Orleans-based natural resources group, is to buy back $263.4m-worth of its own shares, representing 13 per cent of its outstanding equity, from Fund America. Page 21

GENERAL Electric Company of the UK reported half-yearly pre-tax profits down 4 per cent to £342m ($656.6m) and failed to increase its dividend for the first time in living memory. Page 19; Lex, Page 18

ALCATEL ESPACE, space division of the French telecommunications company and Aerospatiale, state-owned aerospace group, have agreed to work together in the design, development and marketing of satellites. Page 21

JAPAN'S real gross national product in the third quarter of this year grew at an annualised rate of 4.1 per cent. Page 6

TRAFALGAR HOUSE, UK construction, property, shipping and hotels group, saw its share price rise sharply after it maintained its final dividend despite a 42 per cent fall in profits. Page 21

NAGAOKA, leading Japanese maker of record styluses, is to be broken up next week. Page 20

IMF managing director, Mr Michel Camdessus, said the abolition of farm supports would increase by $50bn the earnings of farm exporting developing nations. Page 9

CHILE'S central bank forecasts a fall in export earnings of 2 per cent next year, and the trade surplus will shrink from $1.4bn to $550m. Page 8

SANWA BANK, Japanese bank, will send a delegation to Peking to polish an agreement for the first joint venture finance company involving foreign banks since the revolution in 1949. Page 20

PORTUGAL has asked the European Community for about Esc100bn ($753m) of financial aid to help finance a $2.7bn joint investment by Ford and Volkswagen in a plant in Palmela, south of Lisbon. Page 2

BERJAYA, Malaysian conglomerate which expanded rapidly 18 months ago by a series of acquisitions, is to restructure its diversified holdings. Page 21

Gatt talks face collapse over farm aid deadlock

By Peter Montagnon and William Dullforce in Brussels

THE URUGUAY Round of talks to reform the world trade system was on the brink of collapse last night after the European Community again refused to improve on its offer to cut farm subsidies by 30 per cent.

"It's a total impasse. It's a deadlock," said Mr John Crosbie, Canada's trade minister.

"We have reached the end of the road. The situation is critical," said Mr Philip Burdon, his New Zealand counterpart. Unless the EC moved quickly to change its mind, the talks could "collapse completely", destroying four years of effort. None of the 107 countries participating in the talks said they were yet ready to walk out, giving the EC one last chance today to change its mind.

By the end of the second day of the final Uruguay Round meeting in Brussels, delegates said there had been no substantive negotiations at all on agriculture because the EC had remained immobile.

Mr Mats Hellström, the Swedish farm minister who had been chairing this part of the discussions, told delegates after a full day's consultation that there was no basis for negotiation.

Talks in other areas, including the liberalisation of trade in services and textiles, tariff cuts, anti-dumping and enforcement of intellectual property rights, had also ground to a halt.

"Not one political decision has been taken," said Mr Arthur Dunkel, director-general of the General Agreement on Tariffs and Trade (Gatt).

However, Mr Ray MacSharry, EC farm commissioner, urged delegates not to abandon the talks even though he said, following a council meeting of European farm and trade ministers, that the EC was sticking resolutely to its original position on farming.

Mr Rufus Yerxa, US ambassador to the Gatt, agreed that the talks were "very close to collapse," but said the US still wanted to see a fundamental breakthrough.

EC officials said that too much attention was being focused on the single question of agriculture. Other issues were also at stake. The EC has made offers to liberalise its service sector and improve access to its markets for tropical products.

EC officials said they were still trying to "clarify" their farm support offer to show that it would have a significant effect in reducing its export subsidies which have come under fire from other countries here.

However, both the US and representatives of the Cairns group of 14 farm exporting countries have dismissed the figures that the EC has produced as meaningless.

Mr Clayton Yeutter, US agriculture secretary, said they were only an indication of financial amounts for cuts in subsidies but said nothing about the actual tonnages of exports which would be affected.

Delegates last night were waiting to see whether the EC would amend its position in time to save the Round.

Despite palpable anger of Argentina and other Latin American farm exporting countries over the EC position, some delegates said the US wanted to avoid a full-scale confrontation with the EC with the Gulf crisis raging.

Mr John Gummer, UK agriculture minister, has been urging the creation of "elbow room" for manoeuvre on farm reform, but there was little immediate sign of any softening of the hardline position on farm support adopted by Germany and France.

A compromise would depend on Mr Frans Andriessen, the liberal EC trade commissioner, gaining authority from member states to override Mr MacSharry's position and be more flexible in negotiations.

IMF intervenes, Page 9

US to ask allies for more Gulf aid

By Peter Riddell, US Editor, in Washington

THE US is seeking a larger military and financial contribution from its European and Arab allies to support its operations in Saudi Arabia.

Mr Dick Cheney, the US defence secretary, will raise the issue at a meeting of Nato defence ministers this week. He will urge European allies to provide aircraft and ships to carry reinforcements to the Gulf, especially of US troops now based in Germany. He will also request more ground forces.

This is partly a response to the widely expressed protests in the US Congress and among the American public that the US is having to bear a disproportionate share of the burden, particularly of ground forces in Saudi Arabia and of potential casualties.

Mr James Baker, the US secretary of state, will later today explain the background to the latest US initiative to open direct contacts with Baghdad when he appears before the Senate Foreign Relations Committee.

He has said that as "a reward" for full Iraqi withdrawal from Kuwait and the release of all hostages, the US is prepared to offer the assurance that it will not take military action.

This formal pledge of what would anyway have been the case was apparently discussed when Mr Baker held talks last Thursday with the foreign ministers of the other permanent members of the United Nations Security Council.

President George Bush said yesterday that he was not convinced that President Saddam Hussein had yet appreciated the message of the UN resolutions and "therefore the best hope for peace is for him to understand that all means necessary to fulfill these resolutions will be used against him."

In the face of Congressional worries, administration officials have stressed the multinational nature of the forces with 170,000 soldiers, sailors or airmen from 26 non-US countries.

Mr Robert Kimmit, the State Department under-secretary, said that apart from the British decision to send more forces "a number of other countries in the wake of the passage of the UN resolution (authorising the use of force) are now considering sending more forces, feeling that there is a stronger legal and political basis."

The Pentagon is working on revised estimates of the additional cost of Operation Desert Shield in view of the decision to increase the number of US troops to more than 400,000 from the present 240,000. This is expected to raise the cost from the previous estimate of $15bn in the current 1991 fiscal year to at least $25bn.

Mr Cheney came under strong pressure on this issue when he appeared before the Senate Armed Services Committee on Monday.

He said Saudi Arabia had promised to provide host nation support for the new, bigger force as it has for the existing US contingent. This involves underwriting fuel, food and other costs.

Kuwait and the United Arab Emirates have also been providing funds, which, when coupled with the Saudi contribution, cover nearly $8bn of the initial $15bn.

Saddam v Baldrick as Blackadder goes east, Page 6

Prime minister John Major greets Colin Powell, chairman of the US Joint Chiefs of Staff, in London. Report, page 18

Mobilia files for bankruptcy with SKr2.2bn in borrowings

By Robert Taylor in Stockholm

MOBILIA, the Swedish privately owned financial group which is the biggest shareholder in Esselte, the leading office supplies producer, has filed for bankruptcy.

The company has accumulated borrowings of some SKr2.2bn ($389m). Its creditors include two of Sweden's leading commercial banks, Nordbanken and Gota Bank.

Last week, the two banks announced plans to auction Mobilia's 27 per cent stake in Esselte, held by them as collateral for loans to the bankrupt company. The auction was scheduled for Thursday. It is possible the banks may now buy the shares outright themselves.

A receiver for Mobilia was appointed yesterday and is expected to take about two months to wind up the company's affairs.

Mobilia, owned by the brothers Gerhard and Peo Lindholm, first acquired Esselte shares in 1985 and now have 37 per cent of its equity and 44.7 per cent of voting rights.

Since the summer there has been a decline of more than 50 per cent in Esselte's share price, resulting in estimated paper losses for Mobilia of about SKr500m and a default on outstanding loans.

Mobilia also owns a smaller stake in the camera company Hasselblad. Last year Mobilia made a loss of SKr74.17m compared with a profit of SKr39.43m in 1988.

The crisis at Mobilia stems from falling property and share values and is the latest in a wave of troubles to hit Sweden's finance companies since the early autumn.

Esselte has been involved in an extraordinary series of events this year.

In February, the company in alliance with its second largest shareowner, the investment company Ratos which owns 17 per cent of the voting rights and 12 per cent of Esselte's equity, and Gamlestaden, the finance company, made a SKr10bn leveraged bid to buy the whole of Esselte with the aim of breaking up the company and selling it as separate businesses.

However, the independent members of the Esselte board fought a rearguard action and rejected the bid under pressure from management and trade unions who were visibly hostile to the Mobilia-Ratos-Gamlestaden move.

Instead the Esselte board accepted a counter plan drawn up by the management involving a concentration on Esselte's core office business and divestment of its entertainment, printing and publishing and real estate side.

In the spring Mobilia tightened its shareholder grip on Esselte and Mr Gerhard Lindholm became chairman in what was seen as a boardroom coup. However, Esselte continued to pursue its management plan, disposing of an estimated SKr2.8bn of non-essential operations.

Mr Lindholm – as Mobilia's troubles worsened – last month demanded a sixfold rise in Esselte's dividend for 1991 with a rise to SKr50 a share from SKr8 a share. This was rejected by the board last week and Mr Lindholm resigned.

Fed move cuts banks' costs, seeks to boost lending

By Michael Prowse in Washington

A CUT in US banks' reserve requirements was announced by the Federal Reserve yesterday in an effort to counter tightening credit conditions and bolster the profitability of banks.

Reserve requirements oblige banks to place a proportion of their deposits in non-interest-earning accounts at the central bank.

The Federal Reserve Board said that lower requirements would reduce banks' costs and provide an "added incentive to lend to creditworthy borrowers, thus countering, to some extent, the recent tightening in credit terms".

The move is intended to bolster confidence in financial markets and defuse growing fears that the economy faces a "credit crunch". It comes amid signs that the US is sliding rapidly into recession.

The Fed said the tightening of availability of credit had been welcome from a "safety and soundness standpoint", but had begun to exert a contractionary influence on the economy which was reflected in slow growth of credit and the money supply.

Wall Street reacted positively to the change, with bond prices registering immediate modest gains. Banks' stock prices rose. However, analysts said the move had more symbolic than practical importance. It would not necessarily lead to higher lending because banks could use the freed reserves to buy securities or other assets.

The change, the first since 1983, affects only a portion of banks' reserve requirements, mainly those relating to corporate deposits.

Banks will continue to be required to hold 12 per cent of their cheque account balances as reserves at the Fed. However, the requirement against time or deposit accounts with a maturity of less than 18 months, and on net Eurocurrency liabilities, is being cut from 3 per cent to zero.

The change will be implemented in two steps. Reserve ratios on the relevant deposits will be reduced to 1.5 per cent from December 13 and zero from December 27.

The Fed said the requirement on non-personal time deposits was an anachronism following changes in monetary control technique.

Continued on Page 18
Lex, Page 18

de Larosière: warning

French hit at Germans over budget policy

By George Graham in Paris

TENSION between France and Germany over the need to co-ordinate monetary and economic policies rose yesterday with an attack on Germany's mounting budget deficit by Mr Jacques de Larosière, governor of the Bank of France.

"The accumulation of public deficits in Germany, linked to the unification of the country, raises the question of the limits of monetary co-operation. There is a problem of "policy mix" and of multilateral surveillance which goes beyond the problem of straightforward monetary co-ordination," Mr de Larosière said.

Mr de Larosière is the latest in a series of French officials and politicians to criticise Germany for taking economic policy decisions solely on the basis of its domestic concerns and without considering the need to co-ordinate policies with its partners in the European Community.

Speaking to the Royal Society for Political Economy in Brussels, the governor warned that the question of whether the cost of unification should be borne by budget policy, through higher taxes, or by monetary policy, through higher interest rates, concerned the whole of the EC.

His opposite number at the Bundesbank, Mr Karl-Otto Pöhl, has already warned the Bonn government that next year's projected budget deficit of DM140bn-DM150bn ($92.7bn-$99.3bn), an estimated 5 per cent of GDP compared with about 1.2 per cent in France, is "too high."

France has been particularly irked by Germany's need to keep interest rates high in order to retain capital for financing the cost of unification.

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Defeated German opposition wonders to whom it can turn

Germany's Social Democratic party is in open disarray after Mr Oskar Lafontaine (left), the badly defeated candidate for chancellor, refused an invitation to become party chairman
Page 3

MARKETS

STERLING
New York lunchtime: $1.926
London: $1.9265 (1.9190)
DM2.895 (2.9050)
FFr9.8 (9.8150)
SFr2.4725 (2.4800)
Y258.25 (258.00)
£ index 93.8 (93.7)

GOLD
New York: Comex Feb $380.5 (378.5)
London: $378.05 (381.2)

N SEA OIL (Argus)
Brent Jan $31.5 (31.15)

Chief price changes yesterday: Page 19

DOLLAR
New York lunchtime: DM1.503
FFr5.0625
SFr1.284
Y133.9
London: DM1.503 (1.5135)
FFr5.0675 (5.1150)
SFr1.284 (1.2925)
Y134.0 (134.40)
$ index 61.3 (61.4)
Tokyo close: Y134.25

US lunchtime rates
Fed Funds 7½%
3-mo Treasury Bills: yield: 7.215%
Long Bond: 104½
yield: 8.334%

STOCK INDICES
FT-SE 100: 2,146.3 (−16.4)
FT Ordinary: 1,661.6 (−13.7)
FT-A All-Share: 1,032.81 (−0.6%)
New York lunchtime: DJ Ind. Av. 2,586.58 (+0.99)
S&P Comp 324.65 (+0.55)
Tokyo: Nikkei 21,662.61 (−863.38)

LONDON MONEY
3-month interbank: closing 13⅜ (13½)
Liffe long gilt future: Mar 88⅛ (86⅞)

Portugal seeks EC cash for car project

By Patrick Blum in Lisbon

PORTUGAL has asked the European Community for about Esc100bn (£392m) of aid to help finance a $2.7bn joint investment by Ford and Volkswagen in a plant at Palmela, south of Lisbon.

The factory would produce a new vehicle for the European market, and would be the largest ever single foreign investment in the country.

Government officials say a request for EC funds has been lodged in Brussels, which will consider it next month. EC assistance is essential if the plant is to be built in Portugal. There has been fierce competition for what would be one of the largest motor industry investments in Europe in recent years.

Portugal has offered considerable incentives and has emerged as the leading contender. The government is offering a total of $1.1bn (including the EC funds) in subsidies for the project.

The plant would be run as a joint venture between the two motor companies, comparable to their partnership in Autolatina, which makes cars for the South American market.

The plant is expected to produce a car similar to the Renault Espace family vehicle, to compete directly with the French manufacturer as well as with several Japanese ones.

Last year Portugal won two investments by Ford and General Motors to make parts for the European market.

● The European Commission yesterday said it would give nearly Ecu81m ($110m) in regional aid to Portugal, AP reports from Brussels.

The money will go toward rural telecommunications, a new ring road for Lisbon and the modernisation of the country's commercial infrastructure.

The Commission said that the new motorway would link existing autoroutes in the north and south of Lisbon.

The purpose of the commerce project, which will get Ecu24m is to modernise the wholesale and retail trades in Portugal, as well as management structures and distribution networks.

Lambsdorff writes off hard Ecu idea as nonsense

By David Marsh and Ian Hargreaves in Bonn

FRAMED BY a larger-than-life portrait of Bismarck, Mr Otto Lambsdorff, chairman of the German Free Democratic Party (FDP), yesterday fired off a withering barrage at the UK government's "hard Ecu" proposals on European money.

Mr Lambsdorff, who has emerged as the main power broker in the Bonn coalition after Sunday's German election, advised Mr John Major, the British prime minister, to give up the idea for a 13th European currency. "In my view it has to be dropped," he said in an interview with the Financial Times. He termed the proposals as "nonsense".

Although the British initiative has already been severely criticised by the Bundesbank, Mr Lambsdorff's attack yesterday amounts to the strongest comments on the issue from a senior Bonn politician.

Seated in his Bundestag office with his silver-topped cane thrust into a wastepaper basket behind his desk, Mr Lambsdorff spelled out the junior coalition party's pugnacious bid for greater sway over Bonn policies.

Apart from pressing Chancellor Helmut Kohl to compromise over the Gatt talks impasse, Mr Lambsdorff said the FDP – the only party to increase its voting share on Sunday – would not re-elect Mr Kohl unless he agreed lower taxes in east Germany.

Referring to the Gatt talks, Mr Lambsdorff advised the chancellor to break ranks with France by voting in the European council of ministers against France's agriculture policy stance. The French line upholding export subsidies for farmers was against Germany's interests as a big exporter of manufactured goods, he said.

Concerning Mr Major's "hard Ecu" suggestion, put forward when he was chancellor of the exchequer, Mr Lambsdorff said: "This was the only reason why I was unhappy about John Major being elected prime minister. This was his personal darling. He cannot possibly drop it immediately and go over to the next number. But it should be given up."

Mr Lambsdorff advised the British government to take sterling "as soon as possible" into the narrower 2.25 band of the European monetary system to impart "forced discipline" on the UK economy. At present, sterling is allowed to fluctuate with 6 per cent margins.

He firmly rejected the idea of returning to the cabinet as economics minister (a post he held from 1977 to 1984) following Monday's announcement of the resignation of the present FDP incumbent, Mr Helmut Haussmann. "I never try to do the same thing twice in my life," Mr Lambsdorff said, adding that he thought he had more influence as party leader.

The cultural page of the conservative Frankfurter Allgemeine Zeitung spread out on his desk, Mr Lambsdorff was flanked by the traditional crop of photographs of President George Bush, ex-economics minister Ludwig Erhard and even Mr Kohl. Mr Lambsdorff quipped that he would like to receive a signed photo of Mrs Thatcher.

The former British prime minister "did absolutely necessary things" in reshaping the country's economy, he said, but probably harmed the UK more than Europe through her reluctance to accept greater European integration.

Mr Lambsdorff also aimed his grapeshot in the direction of Europe's biggest collaborative arms project, the European fighter aircraft, being developed for the mid-to-late 1990s by Germany, Britain, Italy and Spain. The FDP came out against the jet fighter at the beginning of 1990 on cost and disarmament grounds. Now, he said dismissively, it was dead. "It will not be built."

Lambsdorff: Britain must give up the idea

Bank governor suggests financial reform ideas

By Peter Marsh, Economics Staff, in London

BANKRUPTCY laws and new mechanisms to encourage consumers to save should be introduced in the Soviet Union as part of the move to a market economy, Mr Robin Leigh-Pemberton, governor of the Bank of England, said in Moscow yesterday.

Mr Leigh-Pemberton was giving the fourth in a series of annual lectures started by the Soviet and British governments in 1987.

The governor produced a sweeping list of financial reforms which he advised Moscow to institute as it abandoned its centralised approach to economic planning.

Mr Leigh-Pemberton stressed that the new ideas would sometimes involve difficult adjustments but that the effort would be worthwhile. He said that the Soviet Union would have to chose between a number of models from the western world, none of which provided all the answers.

According to Mr Leigh-Pemberton, the Soviet Union should:

● Change its mechanisms for setting prices, to ensure that these reflected supply and demand rather than artificial tenets set by governments. That would lead to fewer constraints in foreign trade.

● Aim for a balanced budget on public spending. If this was not possible, the country should run only a small public spending deficit. This should be no greater than the amount of productive net investment being undertaken by the private sector.

● Stop government loans to specific parts of the economy, other than when justified on commercial or social grounds. They should not be made "purely to avoid economic or political difficulties".

● Reform property and contract laws to give a legal framework for private enterprise. That would include instituting bankrupcy procedures to deter people operating in a private economy from using resources wastefully.

● Decide which activities could be managed better by private enterprise rather than the government. When areas of the economy are left in the hands of the state, hidden subsidies should be outlawed.

● Introduce laws to protect the consumer and prevent business monopolies.

Gorbachev spells out power sharing plan

By Quentin Peel in Moscow

PRESIDENT Mikhail Gorbachev yesterday presented his plans to share power in the Soviet Union with the presidents of the 15 republics while reinforce his own supreme position.

Flatly denying that the measures reflected "imperial ambitions," he called for and won immediate parliamentary approval for the constitutional amendments – although the details can still be changed over the next two weeks.

Yet his latest attempt to revive the authority of central government and save the union from disintegration, he faces scepticism and outright hostility from some key union republics, which see it as a last attempt to restrict their independent sovereignty.

The constitutional development coincided with a new demonstration of the political weakness of the centre, when Marshal Dmitri Yazov, the defence minister, issued an order yesterday allowing Soviet soldiers to refuse to serve in the Trans-Caucasus.

"From now on, military units in Trans-Caucasia will be manned with servicemen called up in other regions on a voluntary basis," Tass, the official news agency, reported. The area includes the three republics of Armenia, Azerbaijan and Georgia, areas of recent ethnic disturbances and rising nationalism.

Mr Gorbachev presented his constitutional amendments to the Supreme Soviet in Moscow, spelling out the details of an overhaul of presidential power first revealed 10 days ago.

Key elements of Mr Gorbachev's proposed constitutional amendments include: direct subordination of the Soviet government, now called a cabinet of ministers, to the presidency; creation of a powerful vice-president to enforce execution of presidential decrees; and the granting of important executive powers to co-ordinate all-union policies to the Council of the Federation, including the leaders of all the union republics.

Decisions in the Federation Council must be taken by a minimum two-thirds majority, and will be binding on the president, who must enact them by decree. They will also be binding on all the union republics.

Mr Gorbachev admitted that the allocation of powers between the union government and the republics still required agreement on a new union treaty, but called for transitional powers for the president and central government until that agreement was reached.

Four small republics – the three Baltic states, and Georgia – are refusing to sign a new treaty to ensure their outright independence. Russia and the Ukraine, the two largest republics, are also refusing to sign until they have agreed their own constitutions, and whittled down the powers of the centre.

His plan still includes a post of prime minister, although now entirely subordinate to himself, raising speculation that he may attempt to keep Mr Nikolai Ryzhkov in this present position. However, political observers believe that the Supreme Soviet may well refuse to endorse him.

Speculation is rife about who might become the new vice-president, with Mr Eduard Shevardnadze, the foreign minister, Mr Vadim Bakatin, the just-replaced interior minister, and Mr Nikolai Ryzhkov, the prime minister, all mentioned as candidates.

The vice-president will sit on the Federation Council, and head a new body called the highest state control body, or government inspectorate, to enforce presidential and government decrees. The current paralysis of power has meant that many of Mr Gorbachev's decrees have simply been ignored outside Moscow.

The constitutional amendments also require local authorities – the executive committees of regional and city soviets – to carry out the decrees of the central government. In recent weeks these have been ignored when republican parliaments and governments have disagreed.

Violent crime in the Soviet Union has become increasingly vicious and mercenary as social and economic hardships increase, the Interior Ministry said yesterday, Reuter reports from Moscow.

Ministry figures for 1989 showed a 28.5 per cent increase in murders to 21,467. Rapes and assaults rose by 12 per cent in the first 10 months of this year. Murder in the course of armed robbery was up by 11 per cent over the same period.

Officials said the most disturbing feature of the crime wave, which has been building for three years, was its underlying "viciousness". Domestic quarrels were no longer the leading cause of murder.

In its place were crimes for money, often "of special cruelty, including the use of torture and explosives.

Hurd urges coherent security policy

By David Buchan in Brussels

MR Douglas Hurd, the UK foreign secretary, yesterday called for a more coherent European security policy, to convince an increasingly disenchanted America that its European allies were pulling their weight.

His call came after EC foreign ministers reviewed their plans for political union in advance of the Inter-Governmental Conference (IGC) later this month.

Mr Hurd termed as "broadly fair" a document in which the Italian presidency of the EC said "the great majority" of EC states now favoured "a common foreign and security policy", though the British minister stressed that defence still belonged in Nato.

The significance of the position taken yesterday by Mr Hurd – who along with former prime minister Mrs Margaret Thatcher formally dissented from an EC summit declaration on politial union only five weeks ago – is his recognition that a major European security review can no longer be sidestepped. Mr Gianni De Michelis, the Italian foreign minister, hailed Mr Hurd's contribution yesterday as "good news for Europe".

But such a review was needed, not to design a replacemen for Nato, but precisely to keep the US in Nato and some of its troops in Europe, Mr Hurd suggested.

"There is a feeling in the US as they look at the Gulf crisis and the distribution of effort between the US and its allies, they see a lack of balance", the UK minister said. "It is thus more important that Europe should be more effective in its own defence," he said.

He called for better co-ordination between a European Community more focused on security, the Western European Union with its job of coordinaing Europeans' military deployments in the Gulf, and the current revision of Nato' role.

The Twelve's views on political union remain far more disparate than on monetary union, where the UK has been the lone dissenter on all key issues. Italy has sought, and failed, to interest its EC partners in a Community takeover of the WEU, thereby posing problems for non-WEU members like Denmark and neutral Ireland.

Mr Hurd termed yesterday's meeting very satisfactory, "because what we have been keen to avoid is another attempt to write the conclusions of the IGC before the conference has begun".

Hungary's government accused of muddling through economic crisis

By Nicholas Denton in Budapest

MR Jozsef Antall, Hungary's prime minister, yesterday announced the state budget for 1991 amid criticism that his government is muddling through economic crisis.

"The Finance Ministry and the government have given birth with great difficulties to a budget which you are obviously not satisfied with," he said in an address to parliament. He appealed for the co-operation of opposition parties, employers and employees in 1991, the "year of the trial" for Hungary.

The Gulf crisis, the move to trading in hard currency, and a summer drought represented a loss of $2bn to the Hungarian economy in 1991, 10 per cent of domestic consumption, he said.

These external shocks and the absorption into the state budget of spending by quasi-state organisations will push the central government deficit to a record Ft78bn ($1.27bn) from this year's expected outturn of Ft13bn, according to the draft which parliament will now debate. Yet the overall fiscal effect, because of the special factors, is roughly neutral.

Mr Istvan Forrai, head of the prime minister's secretariat, said that the target deficit should be close enough to the Ft70bn demanded by the International Monetary Fund to allow agreement on a new credit facility. IMF approval of the budget is essential if Hungary is to obtain $1.5bn in credits from international organisations. It needs the money to fund a predicted $1.2bn current account deficit in 1991 on top of $2.2bn repayments on Hungary's $21bn foreign debt.

Government MPs are expected to propose amendments to increase spending, breaking the government's deficit targets and delaying the budget beyond the January 1 deadline.

Most independent analysts regard the budget as a messy compromise between cabinet radicals, themselves divided, and more cautious ministers who have argued that an expansionary policy is needed to counter recession.

"This is a budget of muddling through," said Mr Laszlo Csaba, head of the all-party Bridge Group upon whose prescriptions the government claims to draw. "You can't pursue two or three policies at the same time."

The budget's neutral fiscal effect has been achieved largely by abandoning structural reform, indicating that earlier proposals for what amounted to economic shock therapy have been put on ice.

"The radical programme is postponed," said a senior official. "The government is not ready to undertake such a project. The government is too weak."

Separate radical economic proposals from Mr Ferenc Rabar, the finance minister, and Mr Gyorgy Matolcsy, the prime minister's economic adviser, were undermined by the rivalry and lack of co-ordination between them. Finance Ministry proposals for Ft120bn subsidy cuts to contain the deficit have been watered down by a factor of three; and Mr Matolcsy's proposals for supply-side direct tax cuts came up against Finance Ministry opposition.

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EC to consider workers' councils

By Lucy Kellaway in Brussels

LARGE companies in the European Community will have to consult employees on all important matters affecting them. They will also be required to create workers' councils, according to the final draft of a proposal to be considered by the European Commission today.

The controversial scheme is likely to be vigorously resisted by Britain, which has long regarded worker involvement of any kind as an issue for companies themselves.

Many businesses also believe the proposal will add to costs and reduce flexibility.

Any company employing more than 1,000 people and established in more than one country will have to set up a European Works Council, made up of workers' representatives.

Such councils would have to be consulted on any matters relating to their interests.

The measure, which will apply equally to multinationals that are based outside the EC, would oblige managers to present workers with a progress report on the company's affairs.

Unice, the club of European employers, has told the Commission that any obligatory works council would be unacceptable, as it would cut across different types of worker consultation in place in different countries.

Unice is also concerned that the measure could be expensive and could slow decision-making.

The directive is seen as a test of UK social policy. It will also be regarded as a clue to whether the leadership change will mean a softer line on social issues. Brussels officials are not expecting much change.

The proposal is a much watered-down version of the so-called Vredeling Directive, which proposed compulsory worker participation, and which has been blocked for 10 years by a UK veto.

The Commission argues that as the proposal only applies to companies with a European dimension, national governments can no longer complain that Brussels is treading on their toes.

The proposal leaves some room for flexibility as to how it should be enacted.

However, it makes clear that the type of areas to be covered should include job reductions, new working practices, the introduction of new technology, and organisational changes.

Growth soars in pre-unification West Germany

By Andrew Fisher in Frankfurt

WEST GERMANY'S economy lept ahead in the third quarter of this year at its fastest rate for 14 years. The 5.5 per cent increase in gross national product mainly reflected the strength of demand from east Germany following the introduction of the D-Mark and before the country was unified in October.

The figures bear out economists' contention that west Germany has been able to detach itself from the recessionary tendencies starting to affect other countries. Although German companies are feeling the impact of the low dollar, higher oil prices, and the slowdown in foreign markets, many are benefiting from demand in the east.

The rise in the third quarter over the same period of 1989 was the strongest since the fourth quarter of 1976 and was in line with most forecasts. It compared with 3.4 per cent in the second quarter and 4.5 per cent in the first. Employment in the third quarter was 2.8 per cent higher than a year before, with an extra 782,000 jobs created, while labour productivity was 2.7 per cent higher. The number of jobless fell by 122,000, or 6.3 per cent.

The Federal Statistics Office said the main force behind the jump in economic activity was the high level of domestic investment. Industry's spending on new equipment was 13.5 per cent higher, while construction investment rose 5 per cent. Private consumption increased 4.1 per cent, propelled by immigration from the east, higher employment, rising incomes, and tax cuts.

Imports into west Germany leapt by 13.5 per cent in the third quarter, the strongest advance since the fourth quarter of 1970. This stemmed from demand in both parts of Germany, with goods flooding from the west to east Germany when it was still a separate country until October 3.

Exports rose 11.9 per cent, including sales to east Germany of goods imported through west Germany. The movement of goods from west to east has more than doubled this year.

GNP growth in the third quarter over the second was 2 per cent on a seasonally and calendar-adjusted basis.

Defeated party in despair after Lafontaine refuses party leadership

SPD wonders to whom it can turn

By David Marsh in Bonn

Lafontaine (left) and Vogel at the SPD's post-mortem yesterday on its worst result for 33 years. Lafontaine declines to succeed Vogel as party chairman

GERMANY'S opposition Social Democratic Party (SPD) was yesterday in open disarray after Mr Oskar Lafontaine, the badly-defeated candidate for Chancellor in Sunday's general elections, refused an invitation to become party chairman.

Party bosses were plunged into near-desperation after Mr Lafontaine, the deputy chairman, on Monday night turned down the offer to take over the party's reins from Mr Hans-Jochen Vogel.

Mr Lafontaine's refusal, announced at a meeting of the SPD executive board, leaves the party rudderless ahead of Mr Vogel's planned withdrawal from the leadership next May.

Renewed candidature by Mr Lafontaine in the next general election in 1994 cannot be ruled out. But, after recording its worst result for 33 years, the SPD now appears likely to choose another leader to prepare for the uphill struggle to rebuild its fortunes. Although Mr Björn Engholm, the prime minister of Schleswig Holstein, has been tipped as a possible choice, the party is suffering a lack of promising material.

Mr Lafontaine's abrupt move to reject the chairmanship came after he was criticised during Monday's leadership meeting by Mr Willy Brandt, the former Chancellor.

Mr Brandt, Mr Lafontaine's former political godfather, has changed sides during the last year to become one of the candidate's leading critics within the party. Irked by Mr Lafontaine's anti-unification stance during the campaign, Mr Brandt said during Monday's meeting that he had considered giving up his post as honorary chairman of the party – sparking Mr Lafontaine's decision to announce he was spurning leadership overtures.

Mr Lafontaine had earlier been pressed by a number of younger SPD leaders to take over the chairmanship from the lacklustre Mr Vogel.

His preference to return to full-time duties as prime minister of the small western state of the Saarland is bound to confirm the view of many within and outside the party that Lafontaine is not equipped for national leadership.

Turkish coal strike threatens to spread

By John Murray Brown in Ankara

TURKEY'S largest ever industrial action, affecting 50,000 coal miners, was still continuing yesterday with little prospect of a settlement.

Thousands of miners and their families were again protesting on the streets of the small Black Sea mining town of Zonguldak, demanding better working conditions and wage increases of up to 900 per cent.

The immediate cause of today's troubles is Turkey's rampant inflation rate, now running at around 60 per cent. But after a decade when union power has been systematically undermined in an attempt to maintain industry's competitiveness, Turkey's labour problems threaten to become a wider political issue.

Turkey is an important coal-producer, with Zonguldak, the largest mining area, producing around 70 per cent of the country's 4.5m tonne annual demand, much of it destined for the vital iron and steel industry.

However, President Turgut Ozal has warned that the state coal company will double its losses if it offers even a 60 per cent pay increase. The company is offering a 95 per cent pay increase. On Tuesday, the Coal Board locked workers out of the mine.

With opposition Social Democrats and the conservative True Path Party both offering backing to the miners' claims, the strike looks set to spread to other industries.

A further 280,000 miners producing coal for the power sector and legally prevented from striking staged a go-slow. Strike action also seemed imminent in the important textile sector after talks broke down. Textiles was Turkey's largest export last year, earning $3.5bn.

Under Turkey's labour laws, strikes are illegal for public sector workers and those in strategic industries. In the first seven months of this year, more than 1.2m working days have been lost through strikes.

In hard-hitting comments over the weekend, the president indicated that there would be no compromise. "What can we do if the coal you sell from Zonguldak does not cover the cost of the wages paid to the workers?" he asked.

Mr Semsi Denizer, the local union leader, said Mr Ozal "has sided with the managers against the workers. This is why Zonguldak is rebelling."

It was left to Mr Yildirm Akbulut, the prime minister, to adopt a more accommodating stance, calling for talks to end the strike.

General's departure is Ozal's sternest test

By John Murray Brown in Ankara

TURKS were still struggling yesterday to explain the sudden resignation of General Necip Torumtay, the chief of general staff, who was the country's top soldier.

President Turgut Ozal had already lost his defence and foreign ministers in October. But, in a country where the military has played such a dominant role, the general's departure represents the most serious challenge to his leadership since he became president last year.

The timing could not have been more awkward. It comes just a week after the United Nations sanctioned the use of force against Iraq, bringing the prospect of war in the Gulf even closer.

According to one newspaper, Gen Torumtay stormed out of a meeting of the National Security Council on Friday. There were unconfirmed reports that the entire military high command had been prepared to resign until the general persuaded them to stay.

Ironically, Mr Ozal's choice of Gen Torumtay was largely against the advice of the military and particularly the National Security Council, the body which the president chairs.

Yesterday it was announced that Gen Dogan Gures, the commander of land forces, had been appointed military chief.

Mr Ozal's relations with the military have been rather strained.

His ambivalence towards the rise of Islamic fundamentalism is of particular concern to a military that sees itself as the protector of Turkey's secular traditions.

His recent call for opposition parties to support a national referendum on choosing Turkey's president is seen as a direct threat to the constitution, which was framed by the military after the coup d'état of 1980.

Nominally, under the 1982 constitution, Turkey's president has few opportunities to influence policy.

EUROPEAN NEWS

Shanty towns a blight on Lisbon

Buildings are decaying yet prices are soaring, reports **Patrick Blum**

LISBON is facing a major housing crisis as more and more buildings are collapsing after years of neglect and degradation.

Demand for accommodation is growing and property prices are rocketing amid general discontent from proprietors, tenants, construction companies, and local authorities.

The crisis has its roots in a combination of antiquated tenancy and rent laws that discourage private sector investment, and in the failure of successive governments to provide sufficient funding for public housing.

The Social Democratic administration of Mr Anibal Cavaco Silva is no exception. It has earmarked a record Esc80bn ($615m) for expenditure on housing and other social spending in its 1991 budget. But this is for the whole of Portugal and is generally considered vastly inadequate to deal with the crisis in the major cities.

It also compares badly with expenditure on prestige projects such as a new cultural and conference centre being built in Belem, on Lisbon's outskirts, at a cost of Esc14bn.

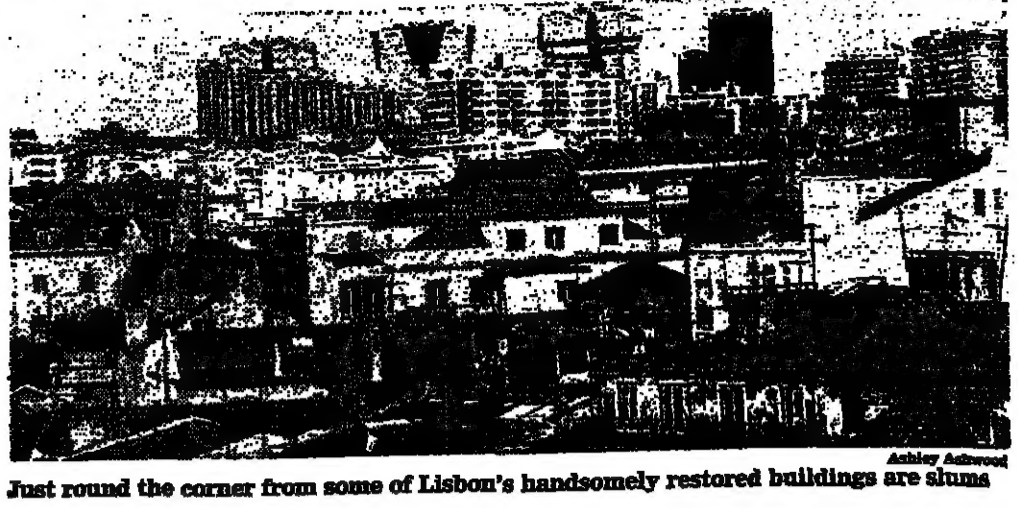
The government is committed to giving a greater role to the private sector in the economy. But private investment is going almost entirely – save for a few luxury developments – into the much more profitable commercial property sector.

About one third of the land and property in Lisbon is owned by the municipality. But the city authorities, with a budget this year of about Esc50bn, can barely manage to pay for ongoing commitments covering a wide range of responsibilities from transport, cleaning, and public services as well as housing upkeep.

Mr Jorge Sampaio, the Socialist leader and Lisbon mayor, says the town hall cannot hope to solve the capital's housing problems without more government help and financial support.

The Socialist party, which won control of Lisbon and several other major cities in local elections last December, accuses the government of indifference and of not having a national housing policy.

Officials estimate that there is a deficit of about 50,000 homes in Lisbon – which excludes an even greater number of homes that need to be rebuilt because they are in appalling condition.



Ashley Ashwood

Just round the corner from some of Lisbon's handsomely restored buildings are slums

Rarely a week goes by without the news of a building collapsing somewhere in Lisbon.

The level of degradation in some parts of the capital has reached such proportions that as many as 30 buildings are expected to collapse during the rainy winter months. To date there have been no major casualties.

Lisbon's housing problems have Third World characteristics. Shanty towns consisting of thousands of "barracas" – makeshift huts made of wood and scraps of metal – and cheap prefabricated "temporary" municipal housing have become a permanent blight on large parts of the city. A recent survey estimated that there were more than 9,100 barracas in Lisbon, a decline of only 1,000 since a similar survey was conducted 10 years ago. In addition there are about 4,500 "temporary" homes in an advanced state of degradation.

Mr Vasco Franco, a town hall councillor, says the real number of barracas is probably 20 per cent higher. This would put the total number of barracas and crumbling temporary homes at around 16,000 – housing nearly 50,000 people.

According to another study, about 60 per cent of buildings in 11 districts spread across Lisbon need urgent, and in many cases, extensive repairs.

In the Bairro Alto, a traditional district which has become fashionable in recent years, of 770 buildings only 32 are in relatively good condition. Yet prices for even the most modest of flats have risen dramatically, though in the long run many houses will need to be extensively renovated or modernised at heavy costs to apartment owners.

Housing in many "historic" parts of Lisbon is reminiscent of the poor housing common in Europe in the 1940s and 1950s, with sanitation, hygiene and safety well below what are now considered internationally as minimum standards.

It was partly the lack of adequate safety which caused the 1988 fire that destroyed the Chiado, Lisbon's historic commercial centre, to sweep through the district at such a speed and with such devastating effect. Regulations may exist but they are poorly enforced and often flouted.

THERE are dramatic contrasts between adjoining streets in the same area. Just around the corner from grand villas, small palaces, and handsomely restored buildings, are slums in dirty narrow streets covered with rotting litter and the home to rats. Throughout Portugal about 3m people, 30 per cent of the population, live in accommodation without running water. Construction companies say Portugal has the most serious and intractable housing problem in Europe, with little prospects of real improvements in the short term.

Proprietors, blame the government for failing to radically change laws that they say assure tenants near unlimited tenancy at rent levels which bear no relation to costs of building or of maintenance.

Shortages and growing demand for decent housing have caused a surge in prices and encouraged widespread speculation that has put buying beyond the means of most Portuguese. High interest rates have not helped and personal credit for housing has been steadily declining.

Meanwhile, a small private sector aimed at the wealthy and at expatriates who can afford rents comparable with those of Paris, Brussels or Frankfurt, has grown rapidly. This has further drained the housing stock while thousands of flats are left empty.

The government has been fearful of the political consequences of fully liberalising the housing market. Nevertheless, earlier this year it reformed the rent laws, mainly allowing new tenancy contracts to be reviewed and rents to be raised after five years. The new law has been widely criticised.

Developers and proprietors say the government's long-awaited reform is too timid and does nothing to resolve the problems with existing tenancies. Tenants associations and trade unions have attacked the law saying it introduces uncertainty for tenants.

All agree that the new law creates ambiguities, and that it will do little to alleviate the crisis. For the foreseeable future, owning one's own home in Lisbon will remain an near-impossible dream for the vast majority of the population.

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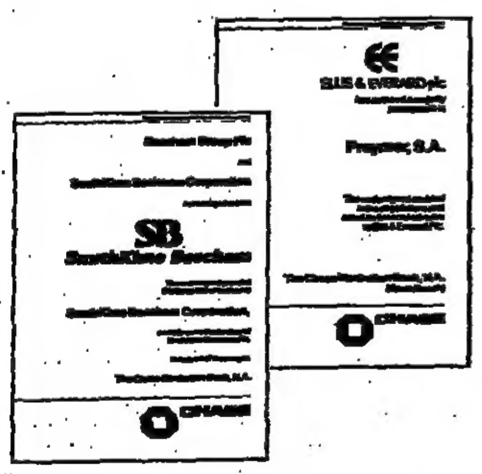

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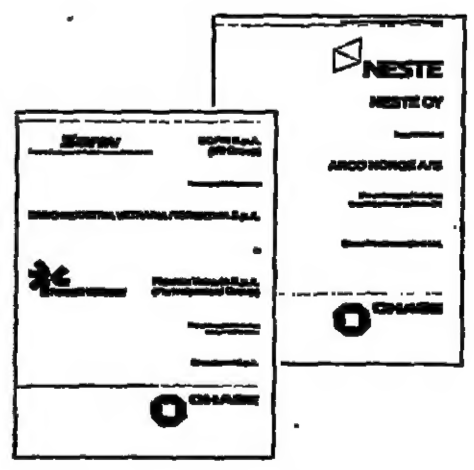

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INTERNATIONAL NEWS

Japan heading for 6% growth in GDP for 1990

By Ian Rodger in Tokyo

JAPAN'S real gross national product in the third quarter of this year grew at an annualised rate of 4.1 per cent, according to figures published yesterday by the government's Economic Planning Agency (EPA).

Many western economies may be facing recession, but Japan's thus continues to show remarkable resilience. This rate of growth, coming after an annualised 11.25 per cent in the first quarter and 5.5 per cent in the second quarter, virtually ensures that Japan's real GNP growth in the full year 1990 will exceed 6 per cent. This is well above earlier predictions and extraordinarily high for a large, developed economy.

Although economic growth has slowed in recent months, there is little concern in Tokyo that the economy will slide into recession in the near future. On the contrary, there is still some worry about overheating in official circles.

Mr Shinyasu Hoshino, deputy director general of the EPA, said yesterday that the economy was now at "a desirable cruising speed" after too rapid a pace earlier in the year. But senior Bank of Japan officials have been saying that their policy stance remains one of waiting to see if monetary tightening measures they have already taken are enough to bring economic growth down to a sustainable level.

Private-sector economists as well are confident that the economy will remain relatively strong. Yesterday, Daiwa Bank's research institute forecast that the economy would grow 3.8 per cent in the year to March 1992, compared with an estimated 5.3 per cent in the current fiscal year.

Real GNP grew 1 per cent in the three months to September on a seasonally adjusted basis compared with the previous quarter, and 5.5 per cent over the same quarter of 1989, according to the EPA. Domestic demand contributed 0.9 per cent to the expansion, while external demand added 0.1 per cent, compared with a negative figure of 0.9 per cent in the previous period.

Consumer spending growth was surprisingly weak, rising only 0.4 per cent, compared with 1.6 per cent in the previous quarter, while private-sector capital investment growth slipped to 1.8 per cent (3 per cent). On the other hand, private housing grew 6 per cent (5.2 per cent).

Exports fell by 4.7 per cent from the previous quarter, and imports by 5.2 per cent.

The ratio of the nation's current account surplus to nominal GNP declined to 1.0 per cent from 1.2 per cent in the previous quarter. Year-on-year inflation, as measured by the GNP deflator, rose to 1.9 per cent from 1.8 per cent.

Company's collapse raises fears of more failures

By Robert Thomson in Tokyo

THE COLLAPSE of a chemical company with a recent past of property speculation has heightened fears that a spate of property-related collapses could be the start of a more severe shake-out of corporate Japan.

Yuho Kasei, an affiliate of the listed Toyama Chemical, has sought protection from the Tokyo district court for outstanding debts estimated by credit research agencies at around Y40bn (£155.03m).

Meanwhile, senior executives of Itoman, the financially troubled trading house which is attempting to reduce its property exposure, yesterday addressed leading creditors in an attempt to secure support for a restructuring.

Itoman is planning to cut its property investment by Y700bn over the next year, but the apparent suicide of an Itoman executive last weekend has caused nervousness among creditors, who will be addressed again in Osaka today and in Tokyo tomorrow.

The Ministry of Finance yesterday announced plans to investigate property lending by non-bank financial institutions, which are blamed by the ministry for the excesses in the industry. However, creditor lists of recently collapsed companies, including Kyowa Corporation, the biggest failure this year with Y150bn outstanding, show that bank affiliates have been leading lenders.

Kyowa's failure last week has led to what Japanese newspapers call the "Kyowa Shock". In the past few days, companies with real or perceived connections to the company have been sold heavily on the Tokyo exchange, while rumours have circulated about serious financial problems at better known companies.

Yuho Kasei has a similar recent past to Kyowa's: it entered the property business in 1987, and quickly expanded its development projects in the Tokyo area. Bankers say it was considered favourably for loans because of its focus in Tokyo, although the property market in the capital has been flat for three years.

Companies entering the Tokyo land rush after the price peak have been among the most vulnerable. A surge in interest rates this year, as well as a general softening of the property market, left Yuho unable to meet obligations, and Japanese credit research companies say it applied for court protection on Monday.

Fearing a "Yuho Shock", Toyama Chemical, which has a 31.75 per cent stake in Yuho, yesterday delivered a statement to the Tokyo exchange and held a press conference to assure investors it would be unaffected by the failure.

Begum Khaleda Zia, leader of the Bangladesh Nationalist Party, at a rally in Dhaka yesterday

Bangladesh president quits after six weeks of protests

PRESIDENT Hossain Mohammad Ershad of Bangladesh yesterday announced his resignation, calling a special session of parliament on Saturday to name a vice-president to head a caretaker government until elections are held, Reuter reports from Dhaka.

This followed an opposition rejection of his peace plan broadcast to the nation on Monday, under which he had offered to step down in mid-1991 before a presidential election due then.

State television said Gen Ershad had asked opposition parties to nominate a vice-president to run an interim administration. "The ball is now in the opposition's court," he said, adding that parliamentary elections would be held before a presidential election.

Earlier, thousands of Bangladeshis marched through the capital, Dhaka, hailing the peace plan but backing opposition demands that he resign immediately.

"We are on the threshold of victory. The hated dictator has finally started counting his days," they chanted as security forces watched from a distance. Witnesses said about 100,000 people took part.

Nineteen MPs belonging to Gen Ershad's Jatiya Party resigned yesterday "in view of the current political situation".

The 60-year-old general has ruled the impoverished country of 110m people for nearly nine years. He took power in a bloodless coup in 1982.

An eight-hour general strike called by the opposition for yesterday closed offices, banks and businesses and halted public transport.

It was the first of a series which 22 opposition parties had called as part of their six-week campaign to oust him. Last week Gen Ershad had declared a state of emergency but eased it on Monday after the clampdown failed to suppress the popular unrest.

According to some estimates, more than 70 people had been killed and 500 wounded in clashes between security forces and demonstrators during the emergency.

Gen Ershad said on Monday he would contest the next presidential election as a candidate of his ruling Jatiya Party. But few believe he will stand now that he has resigned. All through, he had kept the support of the 85,000-strong army.

● THE MIDDLE EAST

Saddam v Baldrick as Blackadder goes east

David White visits a cunningly-sited British army camp in the Saudi port of Jubail

THE Baldrick Lines, they call them. At the port of Jubail in north-eastern Saudi Arabia, the rows of British army tents are marked off by letters and numbers.

Baldrick, a character in the BBC historical comedy series Blackadder, is a dirty, downtrodden fellow who appears in different incarnations, most recently a First World War private. He always has "cunning plans". The plans are always foolish.

And that is what they say in Jubail when asked the reason for the name. Putting a tented camp down on the tarmac of the port was a cunning plan.

The port, 150 miles south of the border between Saudi Arabia and Kuwait, was built under the management of a British company, Sir William Halcrow and Partners, and completed six years ago, for commercial use. Its biggest client to date is the British army.

Just recovering from one peak of activity, it is bracing itself for another when British troop reinforcements start arriving this month, more than doubling the UK's 11,500 ground forces.

Glamorous it may not be, the business of receiving men and equipment and moving them into the desert. But this is where Mr John Major, the prime minister, when he visits the Gulf, might best appreciate the effort required to mount a military operation of this kind.

Commercial activity at the port, which covers an expanse of some 20 square miles within the harbour walls, has ceased. It is run by the US Marines, under whose wing the British forces are being deployed.

Between mid-October and mid-November Jubail received 44 shiploads of British equipment: 4,500 vehicles (tanks, armoured infantry vehicles, "soft-skinned" trucks and Land Rovers, engineering vehicles), 1,500 containers and 12,000 tonnes of ammunition, all of which has been transported to storage sites in the desert.

Two of the harbour sheds served to accommodate arriving British service personnel, 2,000 at a time in each, with loading pallets used to cordon off the camp beds into sections. Between the sheds stand lines of makeshift latrines.

It was the only place the British could come. Dhahran, to the south, was already full with Americans. There was some reluctance to go as far north as Jubail. US Patriot air defence batteries guard the port, the only weapons claimed to be effective against ballistic missile attack.

But they were lucky to find such ready-made facilities. British logistics and transport people say they would like to wrap it all up and take it home with them. "It's been so under-utilised it was a crying shame."

Every British vehicle boasts the red Desert Rat emblem. Back in Germany where the troops came from, it would have been against the rules. "But when this is all over," it is suggested, "maybe the people who were here will be allowed to keep it."

Much store is set by having the right kit. Many have waited weeks for desert camouflage clothing, the floppy hats, the army-issue sunglasses. Desert sweaters are said to be on the way.

If Jubail itself has any pleasures, British soldiers do not know them. The US Marines have put the town off bounds. The 2,000 British based there have to follow the same rule.

British soldiers take an amused view of the Marines' PX store, their hamburger and pizza stands. Some say they mean to go there one day when the queues get shorter. But even the Americans enjoy few creature comforts.

At Jubail's airport, thick with helicopter movements, American enterprise flourishes. Among the tents a group of Marines has set up a second-hand paperback bookshop, a portable barbecue and a T-shirt bazaar.

At one side of the airport stands a handful of Kuwaiti Gazelle light helicopters, small reminders of what everyone is there for, like sparrows in the shadow of a giant machine.

Amnesty attacks Iran rights record

By Scheherazade Daneshkhu

AMNESTY International today urges the Iranian government to take immediate steps to rectify its "gross" human rights record.

The London-based human rights organisation speaks in a report of the "relentless and ruthless" abuse of human rights, including the execution of more than 5,000 people in the past three years.

About half these executions took place in the latter half of 1988 in what Amnesty describes as a "purposeful mass killing of political opponents", when members of predominantly left-wing groups were executed in prisons across the country after a cursory interrogation by a "Death Commission".

Tehran dismissed the report yesterday as an unfounded and "racist" document published to put it under pressure to change its policy on the crisis in the Gulf. Iran has condemned the Iraqi invasion of Kuwait but has also been highly critical of US forces in the region.

The 64-page report details the extensive use of the death penalty for non-political crimes too, up from 148 in 1988 to 1,500 in 1989, with prisoners having no recourse to legal counsel or the right to appeal. Many of these were given out by the Islamic Revolutionary Courts for drug-related offences. Amnesty recorded 1,000 drug-related executions during 1989.

Saudi oil refinery fire may hit multinational forces

By Mark Nicholson

FIRE damage appears to have hit output badly at Saudi Arabia's Ras Tannurah oil refinery, the world's biggest and the main supplier of aviation fuel for the multinational forces based in the kingdom.

Oil executives in London said the cut in the refinery's output could prove long-term and may cause slight dislocation in world supplies, but would be unlikely to cause widespread disruption.

However, the damage could put pressure on supplies of kerosine aviation fuel for the 1,200 locally-based aircraft in the multinational military coalition deployed in the kingdom if fighting broke out. Enough fuel has been stockpiled for present operations.

A four-hour blaze at the refinery last Friday is believed to have badly buckled the refinery's main distillation column. Oil industry officials in the Gulf yesterday estimated that output had fallen to about 300,000 barrels per day from the plant's usual 530,000 b/d.

Saudi authorities said the fire, which injured three workers, was caused by a leak.

Saudi oil officials have refused to elaborate on the damage at the refinery, but London oil executives said yesterday their information suggested the damage could be sufficiently serious to keep output low for several months. "It looks like a year's job to put right rather than a week's job," said one specialist yesterday.

The refinery, 230 miles south of the Kuwait border on Saudi Arabia's east coast, has been supplying up to 35,000 b/d of aviation fuel for the aircraft of the multinational forces deployed in the kingdom against Iraq.

Angolan leader warns of change

ANGOLAN President Jose Eduardo dos Santos called yesterday for sweeping economic and political reforms and told his ruling Popular Movement for the Liberation of Angola (MPLA) that its 15-year, one-party rule would soon be over, AP reports from Luanda.

He told 700 MPLA delegates at the opening of the party's third congress that it would be "the last under a single-party system".

Mr dos Santos said the MPLA must abandon its Marxist economic model to embrace the free market and democratic socialism.

Angola is rich in minerals and agricultural land, but the war has crippled economic activity and severed communications. Only exports from the heavily guarded north-western oil fields have kept the economy afloat.

The six-day congress is scheduled to debate proposals for reforming the centralised economy and introducing multi-party democracy. Delegates will also discuss the continuing peace talks with US-backed Unita rebels to end a 15-year civil war.

After a fifth round of peace talks between the two sides last month, Portuguese government mediators said they were close to a ceasefire. The talks are expected to resume in January.

Mr Dos Santos criticised the centrally planned economic system followed by the MPLA since Angola's independence from Portugal in 1975.

Lawyers benefit from HK passport worries

By John Elliott in Hong Kong

HONG Kong solicitors are demanding fees of as much as HK$20,000 (£1,305) to advise managerial, professional and other people how to fill in application forms for UK passports, which are to be issued next year on a personal points system to 43,200 heads of household.

Nearly 40,000 forms have been issued since Saturday under the new British Nationality Selection Scheme. They are printed only in English and each includes 30 detailed questions, backed up by nine advisory manuals of some 200 tightly-packed pages each.

The scheme is likely to cause serious tensions and jealousies in Hong Kong when the passports are issued because only 225,000 men, women and children – and possibly far fewer – will eventually win, out of a population of nearly 6m.

Government officials say the forms could be filled in within three hours without any professional advice.

But solicitors say expert guidance is needed to maximise the number of points that can be won in such a socially sensitive exercise. Some companies have hired London barristers and other immigration experts to give advice and vet applications.

"We are dealing with highly paid managers and professional people who do not have the time to pore through all this documentation, but whose future lives, and those of their families, will depend on the result. So for them, to get the answers right and win sufficient points, HK$10,000 or HK$20,000 is a good investment," one lawyer said.

The scheme is designed to stem Hong Kong's brain drain of more than 60,000 men, women and children a year who are leaving to seek foreign passports ahead of the colony's return to Chinese sovereignty in 1997.

Elders IXL director arrested

MR GEOFF LORD, a director of Elders IXL, one of Australia's biggest companies, was arrested yesterday on 37 charges involving Rothwells, a failed merchant bank, Reuter reports from Perth.

Mr Lord, chief executive of Elders Resources NZFP until August when the parent brewing company sold it off, was remanded on bail until February 13. He is charged with criminal offences relating to Elders Resources' purchase of about A$20m (£8m) worth of shares in Paragon Resources, a gold mining company.

Congo PM quits

Congolese prime minister, Mr Alphonse Poaty-Souchalaty, has resigned before the start of a congress of the ruling Labour party, Reuter reports from Brazzaville.

The national news agency attributed it to "significant differences about how to solve the country's political crisis". A multi-party system is due to be inaugurated in January.

New Philippine taxes likely in move to cut deficit

By Greg Hutchinson in Manila

THE PHILIPPINE government and legislature yesterday moved closer to agreement on new taxes aimed at lowering the country's ballooning public sector deficit.

Mr Jesus Estanislao, the finance secretary, and the International Monetary Fund are seeking a 30bn peso (£575m) increase in tax revenues next year. The proposals were endorsed yesterday by Senator Jovito Salonga, president of the Senate, boosting hopes that the country will eventually agree to a stabilisation programme drawn up in principle last week with the IMF.

The IMF had sought a government-Congress accord on a fiscal programme to reduce the public-sector deficit from 5 per cent of gross domestic product now to 3.5 per cent next year and 2.5 per cent in 1992. Apart from new revenue measures, the IMF and the finance secretary want a 25bn peso cut in expenditures next year to 136bn pesos.

Mr Estanislao said: "Behind these percentages are very powerful decisions to make". Among them is setting domestic oil prices at "realistic" levels, cutting a government pump price subsidy of 2.5bn pesos a month.

Another measure is the imposition of 5 per cent levy on all imports, or 7 per cent on imports other than oil.

The House of Representatives, which alone can initiate taxation measures, has been warming slowly to new taxes.

● Inflation in the Philippines ran at an annual 13.1 per cent in November, up from 12.0 per cent in October, the National Statistics Office said.

Terrorism shatters the tranquility of Assam's tea gardens

Planters fear that a separatist campaign could undermine the long-term viability of their industry, writes David Housego

IN THE tea gardens of Upper Assam, one of the world's richest producing areas, planters are heaving a sigh of relief. The army operation that began five days ago to flush out separatist guerrillas from their hide-outs in the dense teak forests has brought at least a temporary respite from the fear that has haunted the estates for most of this year.

The planters, many of them working for British-owned companies, nonetheless remain deeply worried about the future. The separatist movement, the United Liberation Front of Assam (Ulfa), has, according to senior officials in the state, a hard-core of 400-600 insurgents equipped with sophisticated weapons and trained in Burma. Most of them so far seem to have escaped the army's net.

The grievances that gave birth to Ulfa – high youth unemployment and resentment in Assam that the state's backwardness is due to neglect by the central government – still remain.

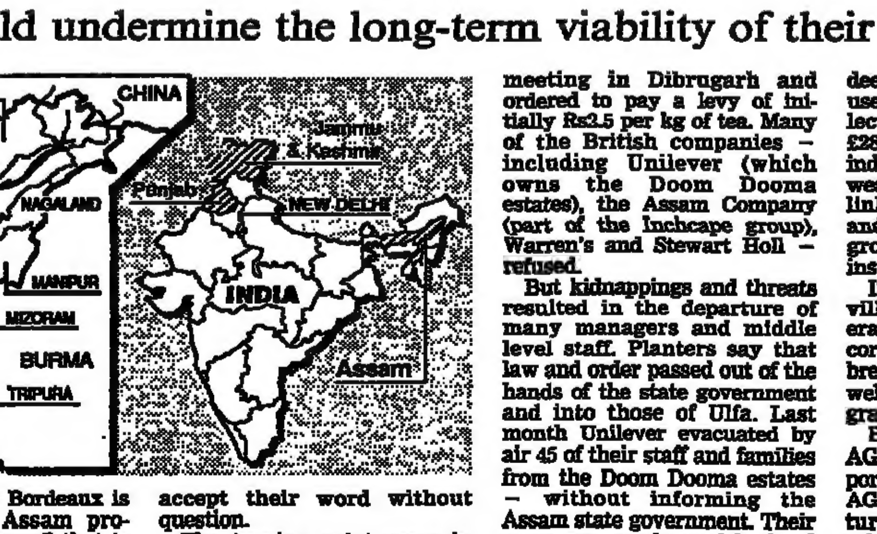
"The future is uncertain", says one planter who sees events in Assam as part of the regional, caste and religious turmoil gripping other parts of India. "We can't be sure the extremists will be wiped out. If this problem cannot be solved, the industry will be hit very badly."

Planters up to now have shied away from talking to the press for fear of terrorist reprisals. Those I talked to spoke on condition they were not named.

Mr D.D. Thakur, the governor, who has taken over the administration since president's rule was imposed last Wednesday, says his aim is to curb the violence, to capture and put on trial 200-300 extremists and to hold elections "well before March".

Unlike Kashmir and the Punjab – two other border states where India faces separatist insurgencies – he says that in Assam "nobody is really prepared for separation. This is the silver lining in the situation".

The tea estates that fan out from the Brahmaputra river – a mat of dark green partially sheltered from the sun by an umbrella of trees - are to the tea industry what Bordeaux is to wine. Upper Assam produces the rich "liquor" that is the base of most blends and accounts for over half of India's tea production.



Until this year the planters (now all Indian) have lived a life of almost Edwardian tranquility. Part of the shock to them has been to see their world invaded by young revolutionaries touting automatic weapons and undermining their authority over workers who have been disciplined to accept their word without question.

The turning point came in April when Mr Surendra Paul, a leading Calcutta industrialist whose family owns estates, was shot by Ulfa extremists near Tinsukia in a calculated move to intimidate the companies. After that, all the gardens faced escalating demands as Ulfa militants forced them to lend vehicles or to appoint Ulfa nominated suppliers.

In June many of the companies were called by Ulfa to a meeting in Dibrugarh and ordered to pay a levy of initially Rs2.5 per kg of tea. Many of the British companies – including Unilever (which owns the Doom Dooma estates), the Assam Company (part of the Inchcape group), Warren's and Stewart Holl – refused.

But kidnappings and threats resulted in the departure of many managers and middle level staff. Planters say that law and order passed out of the hands of the state government and into those of Ulfa. Last month Unilever evacuated by air 45 of their staff and families from the Doom Dooma estates – without informing the Assam state government. Their move was condemned by local officials as irresponsible.

Ulfa grew out of the same student movement that brought to power the Assamese nationalist Asom Gana Parishad (AGP) government that was dismissed last week. Many of its senior cadres are graduates of middle class background.

Influenced by Maoist ideology, it has developed a powerful military organisation and deep roots in the villages. It used part of the funds it collected (estimated at Rs1-4bn £28.5m-£114m) from the tea industry and business to buy weapons in Burma, where it linked up with other Indian and non-Indian revolutionary groups, including the Tamil insurgents of Sri Lanka.

In building support in the villages, Ulfa campaigned to eradicate perceived evils like corruption, drugs and locally brewed liquor, and to promote welfare and development programmes.

Because of its links with the AGP, it had the implicit support of several ministers in the AGP government. The AGP in turn used Ulfa to intimidate other political opponents in anticipation of state assembly elections being held this month or next.

Mr D.D. Thakur, the governor, faces an enormous task in eradicating the terrorist movement and restoring democratic government.

The AGP – still the largest party in the state – is mobilising public opinion against both central government and army intervention.

Most people are unwilling to provide information against Ulfa. "If the governor came here, I would not open my mouth. No way", said one planter. The widespread opinion is that Ulfa will survive the army onslaught and take reprisals.

Within the tea industry, uncertainty about the future is mixed with introspection. Some planters think the estates should have been more involved in local development, especially as the industry has been making record profits since 1986 - though it is also highly taxed.

Some planters also believe that companies should have consulted and co-ordinated more in the face of terrorist violence.

Most of the short-term damage to the estates in terms of neglected maintenance can be made good. But planters believe their authority over their workforces has been eroded by the Ulfa militants. They also fear that if violence continues more managers will quit – leaving a vacuum in a labour intensive industry that requires close supervision.

Shrine agreement

Hindu and Moslem groups yesterday agreed to exchange evidence in support of their respective claims to a disputed shrine at Ayodhya, north-east India, extending efforts to settle the issue amicably, writes K.K. Sharma in New Delhi.

However, Hindu militants will tomorrow attempt again to build a temple at the site, where they claim the god Ram was born.

Kenyan reform plan

Kenya's ruling party yesterday approved modest reforms aimed at defusing opposition, but said it would keep the one-party system, Reuter reports from Nairobi.

The Kenya African National Union (Kanu) endorsed changes to an unpopular election system and ended expulsions of critics from the party.

SA blacks killed

South African police found seven more blacks hacked and beaten to death yesterday, continuing South Africa's latest spasm of township warfare that has claimed over 80 victims in three days, Reuter reports from Johannesburg.

هكذا من الأصل

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Nicaragua renews drive to unblock credit pipeline

Tim Coone on a plan to resuscitate the economy

A GROUP of sombre Nicaraguan ministers is in Paris this week to seek up to $350m in new foreign aid pledges to resuscitate the country's moribund economy.

The "donor's conference" they are hosting is the second multilateral aid meeting organised this year. The last, held in Rome in June, was only moderately successful.

The "guests" are ministers and financial specialists from a number of OECD and Comecon countries which have been principal donors to Nicaragua.

All have told Managua that money is tight and that Nicaragua must settle its internal conflicts if it expects further assistance.

It is a political "Catch 22" for Mr Antonio Lacayo, head of President Violeta Barrios de Chamorro's cabinet and the host at the Paris meeting. His dilemma is that without aid he cannot hope to resolve political conflicts at home and get the economy moving, while without a resolution he cannot hope for more assistance.

A $10bn foreign debt equivalent to between 30 and 40 times annual exports, an annual trade deficit of about $500m, hyperinflation and a stubborn fiscal deficit have made Nicaragua's economic problems some of the most intractable on the continent.

Mr Lacayo's fellow ministers are all squabbling over the share-out of the 1991 budget. Every ministry is in a financial crisis. The ending of the war with the Contras has added almost 100,000 demobilised former rebels and soldiers to a clogged labour market within six months.

As many as 70,000 returning refugees are placing further strain on the labour market and over-stretched social services and housing.

Crime and trade in contraband is soaring, and political tensions are running high.

The wealthier returning exiles have initiated legal battles in under-staffed courts to regain title to land expropriated under the Sandinista government. Many have resorted to gangster tactics to evict the new title holders. Peasants and farm and factory workers have fought back with similar tactics.

When elected to office last February, the UNO government, an alliance of 14 cente and right-wing parties, was expected to produce an economic turnround linked to the restoration of US trade and aid ties.

US economic aid since May, when President Chamorro took office, amounts to $300m. Of this, less than $100m has so far been disbursed; a further package of $200m for 1991 has been approved but not finalised.

Western diplomats say further trade and aid packages from the US are conditional on Nicaragua dropping its $12bn war reparations lawsuit against the US at the International Court of Justice. The case was initiated by the Sandinista government but the new government is afraid to drop it, fearful of adverse domestic reaction.

Meanwhile aid and credit packages worth almost $500m annually from the Soviet Union and Comecon expire this month and will not be renewed following upheavals in east Europe.

With the two superpowers stepping back to the sidelines, Mr Lacayo has to convince other OECD nations to fill the gap. His strategy is:

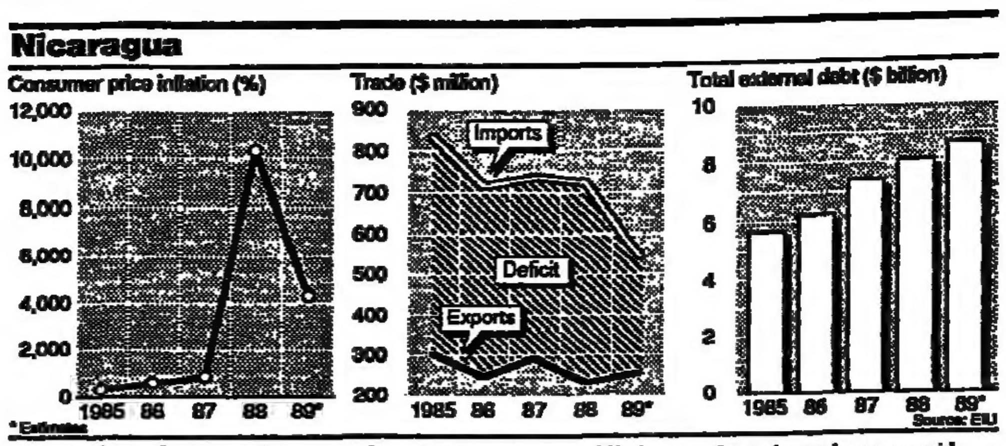
- For any pledge made in Paris, up to $350m, the US has offered to organise an equivalent bridging loan to make funds immediately available. This will be used to settle outstanding debts with the World Bank and the Inter-American Development Bank (IADB), which will then open new credits and trigger a new standby facility with the IMF in 1991.
- Renegotiation of $1.8bn in commercial bank debt would follow.

By unblocking the credit pipeline, the government hopes to revitalise the private sector, boost exports and sharply reduce dependence on aid.

But COSEP, the umbrella organisation representing big business, has refused to sign a tripartite economic pact with the government and opposition unions, arguing that all expropriated properties must first be returned to their former owners.

Sandinista-controlled unions are adamant they should not. Meanwhile ex-Contras, ex-soldiers and the unemployed are demanding land.

Tough problem would remain. But while Mr Lacayo cannot hope to satisfy all his critics, he could contain them with positive results from the Paris meeting.



Chile's central bank forecasts steep fall in trade surplus

By Leslie Crawford in Santiago

CHILE'S central bank forecasts that export earnings will fall by 2 per cent next year, and the trade surplus will shrink from $1.4bn to $550m (£284m) following an expected slowdown in the world economy and lower prices for copper, the main export.

The bank's report, presented to the Chilean parliament, predicts the country's terms of trade will also suffer from a higher oil price, which is forecast to be $24 per barrel for next year.

The decline in copper earnings will occur despite a 7.5 per cent increase in production following the start-up of large private sector projects, such as the $1bn La Escondida mine in the northern Atacama desert. Fruit, fishmeal and forestry exports are expected to continue their strong growth.

The central bank based its projections on a copper price of 93 cents per pound for 1991, whereas the metal has fetched an average of 121.6 cents so far this year.

In all, Chilean exports are expected to decline from a record $8.5bn this year to about $8.33bn in 1991, while imports will rise 8 per cent to about $7.78bn.

Foreign investment will continue to pour in – $1.8bn next year – which will partly compensate for an increase in profit remittances and debt servicing, expected to total $2.2bn.

There will be a small deficit in next year's overall balance of payments, but Chile's healthy foreign reserves of more than $5bn, in addition to the planned placement of $200m of central bank Eurobonds next March, will cover the shortfall.

The central bank believes the country will resume its strong growth trajectory in 1991 after a year sacrificed to the fight against inflation. It expects gross domestic product to grow by 4 to 5 per cent in real terms next year.

The anti-inflation battle has suffered a temporary setback due to the steep rise in oil prices. Chile imports almost all its oil.

However, the bank believes inflation peaked in October, when the annual rate reached 30.4 per cent. It expects 1991 to end with an annual inflation rate of 20 per cent.

To help the central bank's austerity drive, Mr Alejandro Foxley, finance minister, agreed to cut the original 1991 government spending budget by 5 per cent across the board (excluding social projects and police). He said this would allow public sector savings of about 6 per cent of GDP.

Intelsat says it will not invoke treaty to halt competition

By Charles Leadbeater

INTELSAT, the international organisation which dominates satellite telecommunication services, will not attempt to prevent competitors entering the international satellite market, a senior executive said yesterday. Mr David Tudge, Intelsat's deputy director-general, told a London conference that the organisation would not invoke a controversial clause in the inter-governmental treaty which set up Intelsat in the 1960s.

The clause gives the organisation the power to bar competitors from entering the market. Intelsat brings together the leading telecommunications companies in the advanced world. Since its inception, the organisation has dominated the international market for telecommunications-using satellites.

The controversial clause 14d has been seen as one of the main obstacles to the liberalisation and expansion of international telephone services.

The change in Intelsat's position disclosed by Mr Tudge at a Financial Times conference on world telecommunications, could open the way for increased competition in international satellite services.

The structure of the international telecommunications market has come under increasing scrutiny after an investigation earlier this year by the Financial Times, which found that telephone users were being charged more than $10bn a year more than was warranted by the costs of making international calls.

Prof Henry Ergas, a telecommunications expert at Monash University, in Australia, said telephone companies were dividing into two groups in their policies towards international services. The first "low price" group, led by AT&T in the US, OTC, in Australia, Swedish Telecom and KDD, in Japan, had cut international call charges to stimulate demand, achieve economies of scale and reduce unit costs.

The second "high price" group was far larger and aimed to extract high short-term earnings from international calls to subsidise other services and internal inefficiency.

FT CONFERENCE
WORLD TELE-COMMUNICATIONS

Not only are customers of these "high price" companies paying higher call charges but, in addition, foreign telephone companies are paying large sums to arrange the connection and completion of calls made by their subscribers.

Mr Ergas said: "The combined effect is to provide the high price carriers with an extraordinary stream of cash: with foreign carriers earning profits of some $70,000 an hour, 24 hours a day, 365 days of the year, on the traffic stream to and from Australia alone."

He said international prices and the imbalances between low price and high price carriers could only be reduced by a combination of increased competition and tougher regulations.

Mr Bradley P Holmes, director of international communications and information policy at the US State Department, gave his blessing to revised rules on international telephone tariffs drawn up recently by the CCITT, the international organisation of telephone companies.

He said that when "market place realities, combined with technological advances, are allowed to inter-act without artificial restraints prices will drive down towards costs."

Mr Greg Staples, director of the International Institute of Communications, told the conference that a worldwide reduction in international telephone charges would only be possible if the special position of developing countries was taken into account.

Mr Staples said that many of these countries relied on high incomes from international services to maintain and develop their domestic networks. He said that if their income from international calls was to be reduced, the governments and telecommunications companies of the advanced states should organise an aid package to promote telecommunications investment in the developing world.

Mr Oscar Mammi, chairman of the European Community's council for telecommunications, said a recent EC study had found that eastern European countries needed investments of Ecu100bn ($135bn) to triple the penetration of telephone lines by the year 2000.

Mr William Ferguson, chairman of Nynex, the US regional telephone company, said US groups would become increasingly active in overseas markets as they opened up, while Mr William Spencer, vice-president of Motorola, the electronics group, predicted that use of wire-less communications would rise from about 100m users worldwide this year to more than 500m by the year 2000.

Bush seeks partnership of Americas

US President George Bush, arriving in Uruguay yesterday, called for a "permanent partnership among all nations of the Americas", AP reports from Montevideo.

After an airport welcoming ceremony, Mr Bush, the first US president to visit Uruguay since Mr Lyndon Johnson in 1967, proceeded to talks with President Luis Alberto Lacalle.

"I look forward to talking with the president about the exciting future that lies ahead. We in the Americas are on the brink of something unprecedented in world history – the first wholly democratic hemisphere," Mr Bush said. "And in anticipation of that, we need to create together a permanent partnership among all the nations of the Americas," he said.

Mr Bush was underscoring the primary focus of his trip, his proposal for free trade throughout the hemisphere, to which the Uruguayan left wing is opposed.

Consumer body protests over hormone use in cows

By Alan Friedman in New York

THE controversy over genetic development of bovine growth hormones heightened yesterday as the Consumers Union, an influential US lobby group, urged the government to stop the sale of milk from cows injected with the hormone.

The sale of such milk is limited. However, the consumer group's objections could represent a setback for the US chemicals industry.

Monsanto, Eli Lilly, Upjohn, American Cyanamid and others have together spent hundreds of millions of dollars trying to perfect a genetically engineered hormone for cows, to boost milk output. The companies maintain that medical tests show use of the hormone is safe.

But the consumer lobby's concerns were strengthened by a separate protest from the Foundation on Economic Trends, a private think-tank. The foundation filed a lawsuit in Washington accusing the US Department of Agriculture of gross violations of federal law governing the promotion of new products and of colluding with the chemicals industry to influence a Food and Drug Administration review of the growth hormones.

WORLD TRADE NEWS

EC commits itself to liberalising trade in services

By William Dullforce in Brussels

THE European Community has committed itself to liberalised trade in a wide range of services, in a move calculated to help break a crucial stalemate at the Gatt ministerial conference here.

The offer, formally tabled on Monday, was "preliminary and conditional", an EC spokesman said, in response to a US complaint that other countries had not made the initial commitments to liberalisation which Mrs Carla Hills, US trade representative, needs to persuade the US Congress to approve an international agreement.

The 12 member states would open their markets completely to foreign services in many sectors and partially in others. There will be no limitations on market access, and treatment equivalent to that accorded to domestic providers would be available in most business and professional services.

Partial liberalisation is offered in telecommunications, financial services and transport. In the audio-visual sector, where it has imposed controversial limits on the use of foreign video and television programmes to the anger of the US movie industry, Brussels offers only to consider liberalising non-cultural items.

However, the EC continues to insist that the right to non-discriminatory treatment after Gatt's most-favoured-nation (MFN) rule must be firmly embedded in any general agreement on trade and services. Under MFN a trade benefit granted to one country must automatically be extended to all others.

Washington's refusal to have the MFN principle written into the framework of the agreement brought four years of negotiations on liberalising the $680bn (£347bn) trade in services to deadlock in Geneva last month.

After the deadlock over agriculture, the impasse in services is regarded as the most likely to bring about the collapse of Gatt's Uruguay Round at this week's concluding meeting. Mr Jaime Serra Puche, Mexico's trade minister, has been put in charge of a working group seeking to resolve the services imbroglio.

US determination to hinge the granting of MFN on the opening of markets by other countries was largely motivated by AT&T and other US companies providing basic networks. Their argument was that under a non-discrimination rule the US would be operating a open telecommunications market without any lever to prise open the markets of other nations.

In telecommunications the EC is offering full liberalisation of Value Added Services from 1993 and says it would consider opening up packet and circuit-switched data services from 1996. It would also envisage freeing other types of satellite and mobile services. But the offer is silent on basic networks.

Acting to assuage the bad image it has acquired because of its stance on world farm trade, the EC has also submitted an offer to open its market further to the tropical products which are of importance to developing countries.

It proposes to eliminate tariffs on raw materials, to reduce duties on semi-processed goods by 35 per cent and to cut duties on processed products by 50 per cent.

The offer, which complements the reductions introduced last year, covers 220 tariff categories and an annual trade volume of Ecu4bn (£2.82bn).

Products include coffee, cocoa, tea, tropical fruits, spices, cut flowers, essential oils, rubber and wood articles.

Korea's high-speed train race begins

By John Ridding in Seoul

IT TAKES Mr Kim almost six hours to drive his Hyundai from Seoul to the south western port of Pusan. If the traffic is bad, as it increasingly is, the 400km trip can take even longer.

The difficult journey between South Korea's two largest cities is symptomatic of the country's groaning transport infrastructure. Road and rail links have lagged behind the rapid increase in transport demand which has been fuelled by the country's remarkable economic growth.

But Mr Kim's misery, combined with the Korean government's appetite for high technology, spells opportunity for the world's manufacturers of high-speed trains.

Over the next few weeks, the Korean government will issue requests for proposals to build a high-speed railway from Seoul to Pusan. For the consortia representing the French Train à Grand Vitesse (TGV), the Japanese Shinkansen and the German Inter-City Express (ICE), the race to prepare their bids is about to begin.

At stake are contracts for engineering and rolling stock worth between 10 and 20 per cent of the project's total cost of won 5.85 trillion ($4.25bn). The winner of this neck-and-neck contest between the three heavyweights of the high-speed train world will also gain an advantage in an expanding international industry.

"Worldwide, public transportation is becoming more and more important. After a sleepy period there is a renaissance in rolling stock," says Mr Rainer Kehl, president of the South Korean operation of Siemens, the German consortium leader.

For the moment, however, the efforts of the rival consortia are focused on Korea, and the 410 mountainous kilometres which separate Seoul from Pusan. They will have three months to prepare their offers, although the lobbying is already underway.

The Japanese, who are considered joint favourites along with the French, are playing a low-profile game. Like the French, they have appointed a full-time embassy official to look after the project.

The Germans, by contrast, are leaving the contest to the private sector. But like the French and the Japanese, this includes some of the most powerful members of the nation's industry. As a result, the likes of Siemens and AEG will be competing against Mitsubishi and Marubeni and GEC-Alsthom and Sogea.

The winner will have to satisfy a host of technical criteria. Their trains must be able to meet the demand of an estimated 180,000 passengers per day in the first year of operation and travel at average speeds of more than 240km per hour. They must provide assistance in financing the project and supply technology to Korean industry.

With a project of this size, political and broader economic factors will also play a part in the decision. Hence, Japan's large and growing trade surplus with Korea, may represent a disadvantage for the Shinkansen. At the same time, a desire to improve trade relations with the EC may benefit the TGV and ICE.

The honours are divided over performance. The TGV and the ICE are the more technologically advanced systems and can travel at 300km per hour, compared with the 270km per hour maximum speed of the Shinkansen. At the same time, the Shinkansen has greater capacity and is arguably better suited to South Korea's topography.

At least as important as the technology itself, is the degree to which the foreign consortia are willing to transfer it to Korean manufacturers.

The extent and terms of technology transfer are likely to be the most complex part of the contract award.

Engineers from the TGV, ICE and Shinkansen consortia have already discussed areas of collaboration with potential Korean partners such as Hyundai Precision and Daewoo Heavy Industries. But there is, as yet, no Korean consortium with which the transfer of technology can be co-ordinated.

Given the speed of Korea's industrial development, by 1998 when the new trains are scheduled to start hurtling southwards down the tracks from Seoul to Pusan, this could mean that Koreans themselves will be bidding for the next generation of high-speed train contracts.

IMF intervenes in farm row

By Peter Montagnon and William Dullforce

THE ABOLITION of farm supports would increase by $50bn (£26bn) the foreign exchange earnings of net farm exporting nations of the developing world, Mr Michel Camdessus, managing director of the International Monetary Fund, said.

Even if such a change can only be gradual, figures of this size call unequivocally for resolute action, he said in a speech prepared for delivery yesterday to the Gatt session.

Mr Camdessus stressed the importance of the Uruguay Round of multilateral trade negotiations to the world economy, both in sustaining confidence in the industrial world at a time of slowdown, and in supporting the economic adjustment efforts being made by developing countries and the emerging democracies of eastern Europe.

Dismantling trade barriers would increase both growth and employment, he said. Without it the adjustment efforts of developing countries might fail.

Listing the potential benefits to developing countries, he said:

- A one percentage point increase in the growth rate of the industrial world would lead to an average annual 1.75 point increase in the exports of indebted developing and east European countries. This would raise their revenues by $48bn over five years.
- The elimination of tariff and non-tariff trade barriers by industrial countries would raise the growth rate of developing countries by nearly 3 percentage points, yielding benefits equivalent to twice the aid they receive.
- A five percentage point cut in duties applied by industrial countries to manufacturing imports from developing nations would raise the exports of net debtor countries by 4.6 per cent.


Photograph by Terry Kirk

Camdessus: severely criticised the 'cancer of protectionism'

Trade is much more important than aid for developing countries in difficulty, many of whom are now engaged in structural adjustment programmes.

The industrial world would be "committing a grave error" if it abandonned them in midstream, he said. It would be failing in its duty towards the emerging market economies of eastern Europe if, after all the risks that they have taken, it welcomed them into a system which is riddled with the cancer of protectionism.

"We are able to support their efforts with appropriate financing. We can do that and have to do that," he said.

But he said that the world's developed countries must first ratify an agreed 50 per cent increase in their financial obligations to the IMF. The increases would bring the amount of capital underwritten to $80bn up to March 1993.

Developing world feels cheated on textile deal

By William Dullforce

SOME DEVELOPING countries feel they have been hoodwinked by the European Community and other industrialised nations in the draft agreement liberalising the $183bn-a-year trade in textiles and clothing presented to world trade ministers.

The proposed deal amounted to merely an illusion of liberalisation, Mr Malik Naeem Khan, Pakistan's commerce minister, said.

The agreement's aim is to dismantle the Multi-Fibre Arrangement (MFA), which has subjected imports of textiles and clothing to bilaterally negotiated quotas for nearly 30 years, and to bring the trade under the rules of Gatt.

Initially 10 per cent of the total volume of the trade would be integrated into Gatt. Then, at each of three stages through a transitional period, given percentages by volume would be integrated. Percentages of 15 per cent for the first stage and 20 per cent for the second have been suggested, leaving the remaining 55 per cent to be integrated at the end of the period.

Proposals for the length of the transitional period vary from 6½ years to 15 years. A compromise on 10 or 11 years is expected.

The problem concerns the products to be covered by the agreement which are listed in an annex. The list includes products which have never been restricted under the MFA but which importing countries could count in the percentual de-restrictions they would have to introduce at each stage.

Pakistan claims that the EC would be able to "liberalise" imports of large-volume products, to which it already allows free entry.

These products include annual imports of 398,000 tonnes of man-made staple fibres, 60,000 tonnes of jute products and over 40,000 tonnes of carpets.

The products are mostly exported by the poorer developing countries. Pakistani officials calculate that, if these heavy-volume products are included in the list from which the EC can make its staged reductions in import barriers, Pakistan would receive little benefit before the end of the transitional period.

"We will not accept an agreement based on such an illusion," Mr Naeem Khan said. Textiles and clothing, together with agriculture, services and intellectual property rights, is among the four core issues for which trade ministers have to find solutions.

Trade officials had thought that textile products would be the easiest to solve.

Concern at $10bn phone overcharging

By William Dawkins in Paris

LEADING industrialised countries are studying how to reform restrictive practices that lead to the world's telephone users being overcharged more than $10bn (£5.2bn) a year on international calls.

Members of the Organisation for Economic Co-operation and Development (OECD) have asked the Paris body's experts to examine alternatives to the present way in which telephone companies share revenues on international calls.

This obscure accounting system penalises phone companies that cut international charges.

The study was commissioned by the most recent in a regular series of meetings of senior national telecommunications officials, which for the first time accepted the need to re-examine the accounting rate system. The OECD study, for discussion at another session next May, would guide industrialised countries as they decide their own policies.

But it means the OECD has thrown its weight behind the international telephone companies' club, the International Telegraph and Telephone Consultative Committee (CCITT) which is drawing up wider ideas for more liberal markets.

UK NEWS

Labour seeks conditions on tax breaks

By Stephen Fidler

THE opposition Labour Party yesterday urged that tax concessions on British banks' bad third world loans should only be granted when banks provide debt relief to the debtor country.

The four largest clearing banks last year claimed £1.5bn in tax relief against their bad loans to the third world, but are still claiming back the full amount of the debt from debtor countries, according to Ms Ann Clwyd, the party's spokesman on overseas development and cooperation told the Commons.

Mrs Clwyd said the proposal would cost the taxpayer nothing or could even save taxpayers' money, but would provide significant help for debtors.

In a debate following the formal introduction of new rules covering tax relief available to banks, Ms Ann Clwyd also called for new procedures to adjudicate on debts involving allegations of corruption.

The government's stated intention in introducing new tax relief proposals on third world debt was to reduce the uncertainties of the previous regime. The new rules will base tax relief largely on the Bank of England matrix, a yardstick used by the central bank to work out the appropriate level of provisions.

NEW PRIME MINISTER ADDRESSES PARTY

Major shifts agenda to finance new society

By Philip Stephens, Political Editor

INCOME tax cuts and further reductions in public spending are expected to be pushed from the top of the government's agenda following a pledge yesterday by Mr John Major to create a "genuinely compassionate" society.

In a speech which distanced him from the more uncompromising policies of his predecessor, Mrs Margaret Thatcher, he hinted also that the government would aim to provide further incentives to promote savings.

His attempts to mark out the Conservatives as standard bearers of an open, classless, Britain were marred, however, by a continuing row over the selection of a black candidate to contest Cheltenham for the Tories in the next election.

The prime minister was obliged to disown publicly the allegedly racist remarks of Conservative party activists in Cheltenham who continued to protest yesterday at the selection of Mr John Taylor, a black barrister, as the candidate.

In his speech to Tory MPs, peers and officials in London, the new prime minister signalled that the defeat of inflation would remain at the centre of the government's manifesto for the election due by mid-1992.

But in a statement of his philosophy that combined praise for Mrs Thatcher with further efforts to set out his own views, he indicated that he would adopt a much less abrasive approach to social issues.

Mr Major said that the Conservative emphasis on wealth creation and on competition had to form part of wider efforts to create a compassionate society.

In only a brief mention of tax policy, Mr Major said that the aim would be "continue to keep taxes low on families and on business". That contrasted with the firm pledges given frequently by Mrs Thatcher to reduce further the level of income tax.

Mr Major's senior colleagues said that he remained committed to the eventual reduction of the basic rate of tax from 25p to 20p, but added that it was no longer high on the list of priorities.

A renewed commitment by the prime minister to "high quality" public services was seen as signal that the Treasury's aim of continual reductions in public spending as a share of national income would be replaced by a more pragmatic policy of stabilisation.

For the third time within a week, he laid stress on the need to promote saving: to achieve both the social aim of providing families and individuals with independence, and the economic objective of generating funds for investment.

Mr Major used his only budget as chancellor to provide tax incentives for small savers and there is speculation a Westminster that Mr *Norman Lamont*, his successor, will build on those in his budget next March.

Race controversy, Page 12

State hospitals win right to control their finances

By Alan Pike, Social Affairs Correspondent

THE UK government yesterday gave approval for 56 hospitals and other health units control their own finances as self-governing trusts from April.

Mr William Waldegrave, health secretary, made it clear that it plans to extend self-government throughout the National Health Service (NHS). The finances of state-run hospitals are currently controlled by the government-appointed local health authorities.

Mr Waldegrave told MPs when announcing the first trusts that self-government was likely to become the "natural model" for units providing patient care. This was repeated by Mr Duncan Nichol, NHS chief executive. He said the first trusts would set the precedent for the future. The speed would increase and the "programme become unstoppable" as other hospitals saw the success of the first trusts.

Trusts will be run by businesslike boards with a range of freedoms denied other hospitals, including the ability to set pay rates and raise capital.

In addition to the 56 trusts approved yesterday Mr Waldegrave is considering expressions of interest from 111 more hospitals and other units which may become trusts from April, 1992. Both the 56 and the 111 include not only hospitals but a range of other NHS facilities like ambulance services, community health services and mental health units.

Trusts have proved one of the most controversial aspects of the government's forthcoming health reforms. Critics claim they will unbalance local health provision, and fear trust hospitals will pursue profitable activities rather than maintain comprehensive services.

The logic of the government's reforms – which involve separating the *funding* of health care from its provision – suggests, however, that hospitals and other units should operate at a distance from their purse-holding health authorities. It is on this basis that the government sees trusts as the model for the future.

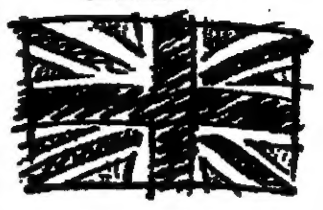
There have been claims that some of the 56 units which will become self-governing in April do not have the managerial and financial expertise and stability to make a success of their new status.

Mr Robin Cook, the opposition Labour health spokesman, said: "There is to be no change in health policy. The NHS is no more safe in the hands of John Major than it was in the hands of Margaret Thatcher."

Labour launches attack over community charge

The government does not know how to reform the poll tax and is split on the issue, Mr Bryan Gould, (right) shadow environment secretary, claimed at a press conference yesterday. He said the planned review of the poll tax would be a "nightmare" for the Tories and for poll tax payers. Mr Gould and Mr David Blunkett, (left) opposition local government spokesman, said Mr Major had ruled out root and branch reform of the tax.

BRITAIN IN BRIEF



UK signals tough line over Emu

The government indicated that it would take a tough stance on European economic and monetary union (EMU) at the forthcoming inter-governmental conference in Rome with a strong attack on the imposition of a single currency at a London conference.

Mr Francis Maude, financial secretary to the Treasury, told the conference organised by the Centre for Policy Studies, the right-wing think tank, that a switch of prime minister would not result in any modification of official UK opposition to rapid progress of Emu.

The UK was "not prepared" to commit to a single currency which would lead to a "massive pooling of sovereignty." It would also lead to the loss of decision-taking and monetary policy from London, he said.

Francis Maude: strongly opposes monetary union

"No one can say that will never happen, but we need to be persuaded that the advantages of the single currency are great enough to outweigh the disadvantages," he said.

Nissan accord may set trend

UK employees of Nissan have accepted a two year deal which will raise pay from January 1 by 10.5 per cent, the lowest increase among British car workers this year.

Nissan's deal, accepted in a ballot by 78 per cent of the workforce, is seen as a sign of downward pressure on UK pay after rises significantly above inflation at Ford, Vauxhall, Jaguar and Rover.

Sumitomo in £43m City deal

Sumitomo, Japanese trading company, is paying £43m to Wates City of London Properties for a half share in an office development at Vintners Place in the City.

British Gas break-up threat

British Gas has been threatened with break-up by the gas regulator unless the group surrendered 30 per cent of the industrial gas market by 1993.

James McKinnon, director general of gas supply, who has become increasingly exasperated this year with the pace of competition in the gas industry, told a business audience in Birmingham, in the English Midlands, that a "strong kick" was needed to give competition greater momentum.

Machine tool specialisation

Moves towards the supply of niche markets with high-value products are critical for the survival of the UK machine tool industry, according to a report.

Working in the shadow of Japanese and German domination of the the machine tool market and increasingly threatened by high-volume, low-cost manufacturers in South Korea and Taiwan,

Top 10 machine tool producers 1989

World market share %

British producers face falling domestic demand as manufacturing investment sags.

The report, by Coopers & Lybrand Deloitte, consultants, and commissioned by the West Midlands Development Agency, urges British producers to associate with innovative companies in Switzerland and Italy.

Coopers wants the companies to identify new market opportunities.

Reserves decline by $85m in UK

The UK's underlying reserves of gold and foreign currency fell by $85m last month, according to Treasury figures.

They indicated the Bank of England had intervened on a small scale to prop up sterling on the foreign exchanges during the month.

The underlying rate followed a $78m fall in October. The reserves now stand at $38.47bn.

Brooke defends border closures

Northern Ireland Secretary Peter Brooke defended the night-time closure of four permanent army checkpoints on the border with the Irish Republic and refused to rule out the closure of further crossings in an effort to stop IRA "human bomb" attacks, despite the disruption to the local community.

Peter Brooke: admitted disruption to local community

He was speaking after his recent decision to close border crossings in County Fermanagh during at dusk.

Tube reveille

London Underground is making early morning alarm calls to drivers' and guards' homes in an attempt to improve the Tube services.

The company said "the familiar voice" of depot managers was helping drivers and guards to get up on time but denied that there has been an absenteeism problem.

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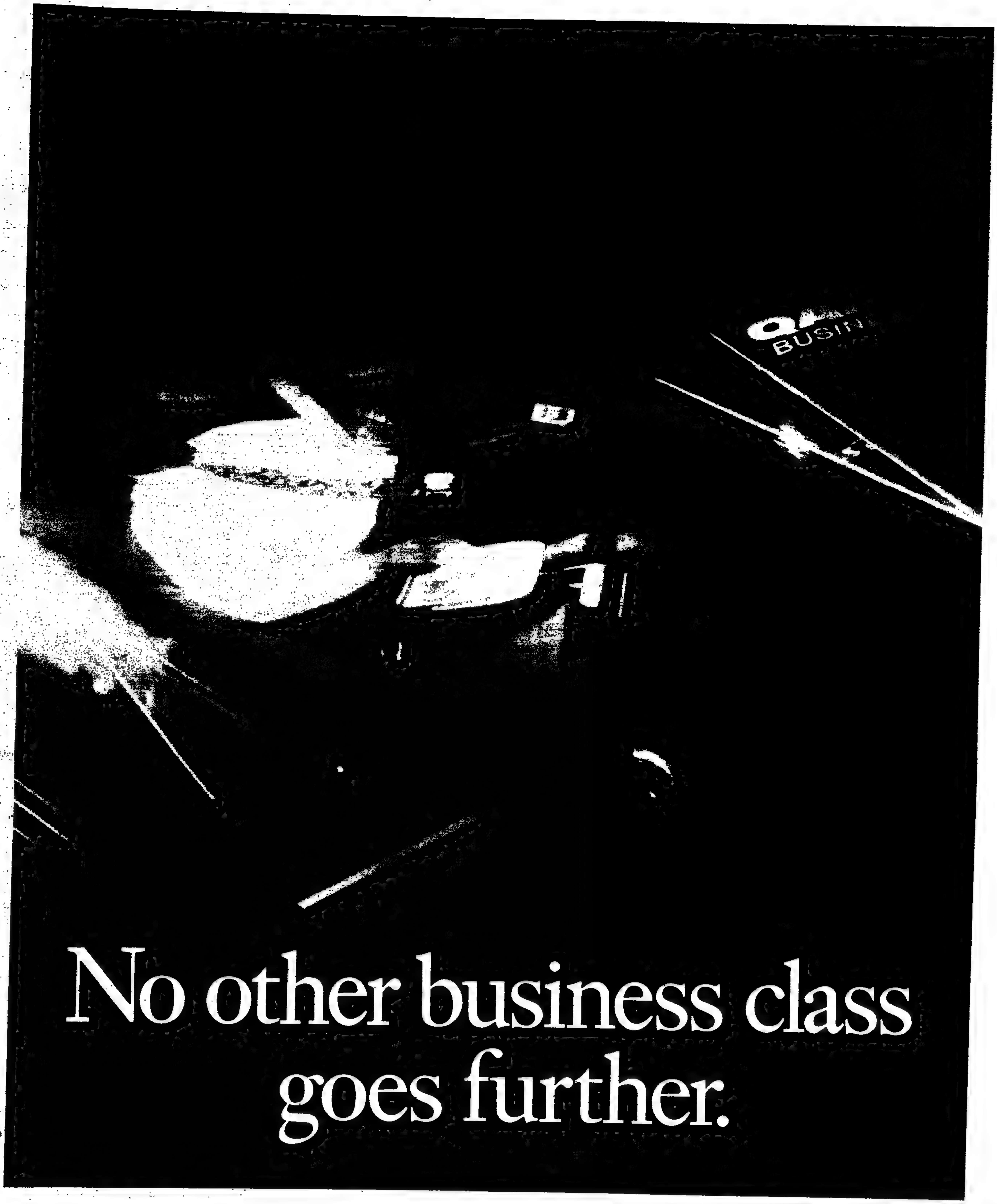

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Rising exports lead to recovery in car production

By Kevin Done, Motor Industry Correspondent

RISING EXPORTS have led to a significant recovery in UK car output despite the sharp fall in domestic sales. But the truck industry is suffering one of its steepest ever falls, according to official figures released yesterday.

Car output in the first nine months of 1990 was 6.1 per cent lower than a year ago, but production in the third quarter alone was 1.4 per cent higher than the corresponding period of 1989, and according to provisional figures from the Central Statistical Office, output in October jumped 19.1 per cent

Car output for export markets in October was more than double the level of a year ago, while production for the domestic market declined by 11.3 per cent.

Production is being boosted by rising output chiefly by Rover, Nissan – the Japanese manufacturer – and Vauxhall, a subsidiary of General Motors of the US.

For the first nine months, Rover car output was 12.8 per cent lower than a year ago, but in September production at 30,564 rose by 15.9 per cent from the corresponding month last year, according to figures from the Society of Motor Manufacturers and Traders.

Rover car output in the early months of the year was depressed by the changeover to two new model ranges, the Rover 200/400 and the new generation Metro.

Vauxhall car output in the first nine months was 16.4 per cent higher than a year ago, while in September alone production rose by 5.4 per cent.

The company is out-performing the weak UK domestic car market, but it has also begun to export significant volumes to continental European markets for the first time in a decade.

Output from Nissan's Sunderland assembly plant in north-east England was depressed in the first half of the year by the changeover of model generations from the Bluebird to the Primera, but production is recovering quickly.

Output for the first nine months at 48,224 was 20.5 per cent below last year, but it was 27.5 per cent higher in September. For the full year, Nissan says that production will be virtually unchanged at 76,000 compared with 77,000 in 1989. It is forecasting a jump in output next year by 45 per cent to 110,000 cars, helped by rising exports.

By contrast, Ford car output in the first nine months was 18.6 per cent lower than a year ago, while output in September dropped by 22.8 per cent.

The biggest impact of the recession in the UK new vehicle market has been felt by the truck industry, and several producers have been forced to halve output this year.

While overall output of commercial vehicles has fallen by 14.1 per cent in the first nine months, the smaller truck makers Seddon Atkinson, ERF, Foden, Renault Truck Industries and AWD have suffered falls in output ranging from 49 to 56 per cent, one of the steepest falls into recession the sector has ever experienced.

The two biggest truck makers, Leyland DAF and Iveco Ford, have suffered falls of 29 and 47.5 per cent respectively.

MANAGEMENT PAY

ICI to link staff salaries to environmental performance

By Diane Summers, Labour Staff

ICI, the chemicals conglomerate, is to be one of the first UK companies to link the pay of its managers to performance in meeting environmental targets. The targets will form part of a drive by the company to improve its environmental record.

For ICI's most senior managers, who are already paid wholly on the basis of performance, environmental issues will be moved to the top of their list of priorities. The company's eventual aim is for all white-collar workers' pay to reflect environmental performance. Negotiations with unions on the reform of pay structures are currently taking place.

The move forms part of a plan by ICI to double environmental spending to £1bn worldwide and reduce output of harmful wastes by at least 50 per cent over the next five years. Sir Denys Henderson, ICI's chairman, said recently that the aim was to make the company's environmental performance "measurably better".

A number of other companies, particularly in the chemical and natural resource sectors, are also thought to be considering the introduction of environmental performance-related pay. The idea has already gained acceptance in the US: Exxon, the US oil company of which Esso is a subsidiary, set its managers extensive environmental targets after the public furore surrounding the 11m-gallon oil spill by the Exxon Valdez off Alaska last year.

Ms Vicky Wright, head of compensation practice at Hay management consultants, said that, while ICI appeared to be leading the field, a number of other organisations that Hay was working with were also looking at ways of linking company objectives more closely to performance management.

"Organisations are getting away from simple profit targets and are looking at issues like the environment and developing customer relations," said Ms Wright.

Relating pay to environmental performance at ICI marks a "distinct change of emphasis," according to Mr John Coleman, group environmental affairs manager. Historically, safety, health and environmental targets have been grouped together, with safety "tending to predominate," he said.

Now ICI has decided to separate environmental from health and safety objectives and give them equal priority, said Mr Coleman. Broad corporate objectives on the environment are to translated into targets for the company's individual businesses.

From there, the performance-related pay targets will "cascade downwards, in theory quite a long way", according to Mr Coleman. The company is currently reviewing ways of strengthening and extending its overall performance-related pay structure, he added.

Directors' earnings rise by 10.5%

By Simon Holberton

THE basic pay of executive directors in Britain rose by 10.5 per cent in the year to the end of September, compared with a rise in retail prices inflation of 10.9 per cent for the same period, according to a study published yesterday.

The study of almost 100,000 executives, which was carried out by the Reward Group pay consultancy, and conducted with the assistance of the Institute of Directors, showed that the pay of managing directors advanced 12.5 per cent during the year, while the remuneration for non-executive directors rose by 13.5 per cent.

"None of these figures relate to the selective scaremongering which has led to a general view that all directors are lining their pockets while restraining their workers," the study observed.

It produced data to show that all levels of employee had receive pay rises above the rate of growth of the retail prices index.

Over the five years to the end of September 1990, the retail prices index rose by 30.7 per cent, but in the same period average earnings had increased by 42.2 per cent, managers pay by 37.6 per cent, executive directors pay by 41.4 per cent and managing directors pay by 50 per cent.

The average pay of a UK director is £40,000 a year, consisting of £35,350 base pay and a bonus of £4,650, according to the study.

Directors' Rewards 1990-1991, Reward Group, Diamond Way, Stone Business Park, Stone, Staffordshire, ST15 0SD. Tel:0785-813566.

Black barrister tests the Tory's classless society

Kenneth Baker, home secretary, meets John Taylor, the prospective MP for Cheltenham

The spectre of racism has risen in the Tory held parliamentary seat of Cheltenham. **Ralph Atkins** on the emotions and motives of those involved

THE retired soldier, sipping his whisky in the Cheltenham Conservative Association's bar, wore a tweed jacket and a sardonic smile.

"The old colonels will be turning in their graves, twitching their moustaches," he said.

The selection of Mr John Taylor, a black 38-year-old barrister, as the local parliamentary candidate has caused a ruction and rumpus in Cheltenham that many inhabitants – dead or alive – have not witnessed before.

Mr John Major, the new prime minister, aspires to a "classless society". Genteel, historic Cheltenham – retirement home for old warriors, Mecca of the middle classes – has spoilt his vision.

Angry Cheltenham people have demanded a re-run. "Why didn't they choose a local man . . . or are they all too busy sending out raffle tickets to pensioners?" complains a letter in the Gloucestershire Echo. Outright racist prejudice is bubbling below the surface.

Mrs Monica Drinkwater, party chairman, sitting in her study with the phone switched off, tried to appear unruffled. "It is a storm in a teacup," she insisted before diving off for more media interviews. In the Commons yesterday Mr Major repudiated racialist attacks made on Mr Taylor saying during question time that such sentiments did not have "any place in our party".

Mr Taylor was chosen from 254 applicants for the Conservative-held seat. CV's were rigorously scrutinised; a short-list of 22 interviewed; a final four were grilled by the 50-strong executive committee. He won, becoming in the process the only black candidate so far chosen in a Tory-held seat.

He was an "outstanding candidate" supported by more than half the executive, said Mrs Drinkwater. "We would have been manufacturing a lie if we had put anyone else forward."

But when Mr Taylor was paraded before the whole party at the columned Queen's Hotel on Cheltenham's promenade, for his formal nomination, the executive committee was taken aback at the force of protest.

Most forthright and least ashamed to talk about race, was Mr Bill Galbraith, Conservative party member of 37 years standing. "For this town, a black man is not for us," he said yesterday, adding a complaint that out of 254 candidates, "they chose and foistered on us a black man."

His views sparked a sharp rebuke nationally and locally. "I apologise on behalf of the Cheltenham party," said Mrs Drinkwater. "You will always get, in any society, people whose vision does not extend beyond their noses," Mr Taylor told the BBC.

And others who are protesting against Mr Taylor's adoption have distanced themselves. "I'm crossing him off my mailing list," said Mr Colin Lear, a retired auctioneer from his neatly-kept house on the fringes of Cheltenham. "He is the nigger in the woodpile, if that is not a rather unfortunate phrase."

Mr Lear's objection is about the lack of choice the party was given and the threat of losing a seat where the retiring MP, had a majority of just 4,896 over the Liberal Democrats. "It wasn't anything to do with the man's colour. It was because he would lose the election," said Mr Lear.

He denied being a racist but said there are few "ethnics" living in the constituency. Adopting another unfortunate metaphor, he said: "You have got to have horses for courses. It is no good putting a nag in for a thoroughbred race."

Mr Major's classless society has little appeal for white-moustached Mr Lear, who served as a major for the territorial army in India.

"It should not be discussed even," he said. "Providing we all work well and save hard and are totally loyal to Great Britain – as most of us are – that is all we need to do . . . The only classless society I know was Russia".

Cheltenham, with its grand regency architecture, pump room, and memorial to the South African wars at the turn of the century, seems an unlikely place for an uprising.

George III came to "take the waters" in 1788 and upstanding probity has been Cheltenham's unofficial motto ever since.

The town's ethnic population is tiny but hard to measure. A decade ago, 2,000 households (out of more than 80,000) were headed by someone born outside of the UK. That, ironically, would include the retired colonels who were born in India.

Mr Taylor – his critics complain – is an outsider from Birmingham. There is a groundswell which could see the required 50 signatures being collected for reconvening the adoption meeting.

Mrs Sheillagh Grover, an 81-year-old widow, said his colour does not matter. "I don't care if he is yellow, pink or red...he doesn't know a damn thing about Cheltenham."

Mr Major gets a metaphorical clip around the ears for his ideology from Mrs Grover. A classless society? "That is ridiculous," she said, making clear she is "upper" class.

"I'm not snobby. I have good friends of all classes, being Irish." People know their places, she maintained. "An old lady I know, she would not be the least bit happy to have dinner with me. She would be flummoxed."

Mr Roy Marchant, who runs a coach company, added: "I'm just speaking for what the majority of people, of all walks of life, think – they just want somebody they know something about. We have got some good material locally."

FT LAW REPORTS

Good faith is required by companies on pension increase

IMPERIAL GROUP PENSION TRUST LTD
Chancery Division: Sir Nicolas Browne-Wilkinson vice-chancellor:
December 3 1990

AN EMPLOYER company whose consent is required for an increase in benefits under an employee contributory pension scheme, can only withhold its consent if it does so in good faith. And consent is not withheld in good faith if the only reason for withholding it is to put pressure on members to transfer to another scheme offering inflation-related increases, under which their existing entitlement to surplus would be transferred to the company.

The vice-chancellor so held when giving reasons for his decision on a summons by the trustees and mangement committee of the Imperial Group Pension Trust Ltd against the employer company, Imperial Tobacco Ltd, as to whether the company's consent was essential to an increase in pension benefits. In the absence of investigation of the facts the court was not in a position to decide whether the company had or had not acted in good faith in withholding its consent.

HIS LORDSHIP said that the Imperial Tobacco pension scheme was established by trust deed in 1929 to provide pensions for employees of the company. It was managed by a committee of employees.

The scheme was contributory. Members had to contribute annually. The company was bound to pay such sums as the actuary might certify were necessary to make the fund actuarially solvent.

Until 1985 the Rules made under the trust deed did not expressly provide for increase in benefits. In practice from 1970 to 1985 increases were given at or at less than the rate of increase in the Retail Price Index (RPI). The increases were made under clause 36 of the Rules which provided that the committee might, "with the consent in writing of the company", alter or modify the deed or Rules.

In 1985 a takeover bid by Hanson for the company was imminent. The committee made amendments to the trust deed and Rules to discourage the bid, and to improve existing members' rights. The first amendment provided for automatic closure of the fund to new members in the event of any party acquiring control of Imperial Group; and the second introduced a new rule, 64A, by which pensions should be increased by at least the lesser of (a) 5 per cent and (b) the RPI increase.

The Hanson bid succeeded on April 18 1986. The fund was closed automatically.

Under the trust deed, on determination of the fund, surplus was applied for the benefit of members. Funds did not revert to the company.

Since the takeover the fund had been in actuarial surplus. The actuary had not called on the company to make further contributions. The minimum surplus was £130m. Although the company had had a contribution holiday, the serving employees had been bound to continue to make contributions to the fund.

In 1986, 1987 and 1988 the increase in the RPI was less than 5 per cent. Therefore, under rule 64A, pension benefits were increased by an amount equal to the increase in the RPI. In 1989 the RPI increased by 8 per cent. The company agreed an increase of 7 per cent in the pension benefits.

Following the takeover the committee sought assurance that Hanson would continue to observe the previous practice of increasing pensions in line with retail prices. As the committee understood the position, the company announced it would not agree to any further increase over that guaranteed by Rule 64A, i.e. inflation linking up to 5 per cent. That remained the committee's understanding down to the second day of the hearing in the present proceedings, when counsel for the company stated that that was not the true position.

The company inaugurated a new scheme, the Retirement Benefit Scheme (RBS), for new employees. The RBS management committee consisted of the same people as the fund management committee. The RBS was a non-contributory scheme.

The company indicated it was prepared under the RBS to guarantee annual pension increases equal to the lesser of 15 per cent and the RPI increase. It proposed to give the opportunity to fund-members to transfer membership to the RBS. Given the committee's understanding that no increases above 5 per cent would ever be agreed under the fund, it recommended transfer.

A substantial number of fund-members opted to transfer. Under the transfer arrangements they would take with them an aliquot share of the fund, including their share of the surplus. If there were to be a 100 per cent acceptance of the proposal, the whole fund including surplus would go over to the RBS.

Under the RBS scheme any surplus was returned to the company.

The question was whether the committee had no power without the company's consent to increase the benefits above the guaranteed minimum of 5 per cent.

Clause 36 contained no express limitation on the company's right to give or withhold consent.

Pension benefits were part of the consideration which an employee received in return for the rendering of services. The company was not conferring a bounty. The scheme fell to be interpreted against the background of employment.

In every contract of employment there was a term that the employers would not, without reasonable and proper cause, conduct themselves in a manner calculated or likely to destroy or seriously damage the relationsip of confidence and trust between employer and employee (*Woods (1981) IRLR 347*). That was the "implied obligation of good faith".

Construed against the background of the contract of employment, the pension trust deed and Rules were impliedly subject to the limitation that the company's rights and powers could only be exercised in accordance with the implied obligation of good faith.

The right to give or withhold consent was therefore subject to the implied limitation that it should not be exercised so as to destroy or seriously damage the relationship of confidence and trust between the company and its employees and former employees.

The facts had not been investigated before the court and were not common ground. It gave such indication as it could on hypothetical and unproved facts, as to the effect of the obligation of good faith on the company's power to withhold consent.

First, the question was not whether the company was acting reasonably. It must be open to the company to look after its own interests financially and otherwise in future operations of the scheme in deciding whether or not to give its consent.

However, the obligation of good faith did require that the company should exercise its rights (a) with a view to the efficient running of the scheme; and (b) not for the collateral purpose of forcing members to give up their accrued rights in the existing fund subject to the scheme.

As to (a), it would be a breach of the obligation of good faith if the company were to say that it would *never* consider whether or not to consent to an amendment increasing benefits. A blanket refusal to consider amendments beneficial to employees and acceptable for the last 20 years was plainly calculated to undermine employees' trust in their employer. Good faith required the company to consider the proposals each time they were made, in the light of existing circumstances.

As to (b), the obligation of good faith required that the company should not exercise its rights for the purpose of coercing a closed class of employees to give up its rights under the existing trust. The duty of good faith required the company to preserve its employees' rights and pensions fund, not to destroy them.

Why was the company seeking to induce members to give up their rights and transfer to RBS rather than consent to alteration of the fund Rules? The court asked that question of counsel for the company on a number of occasions, but received no answer.

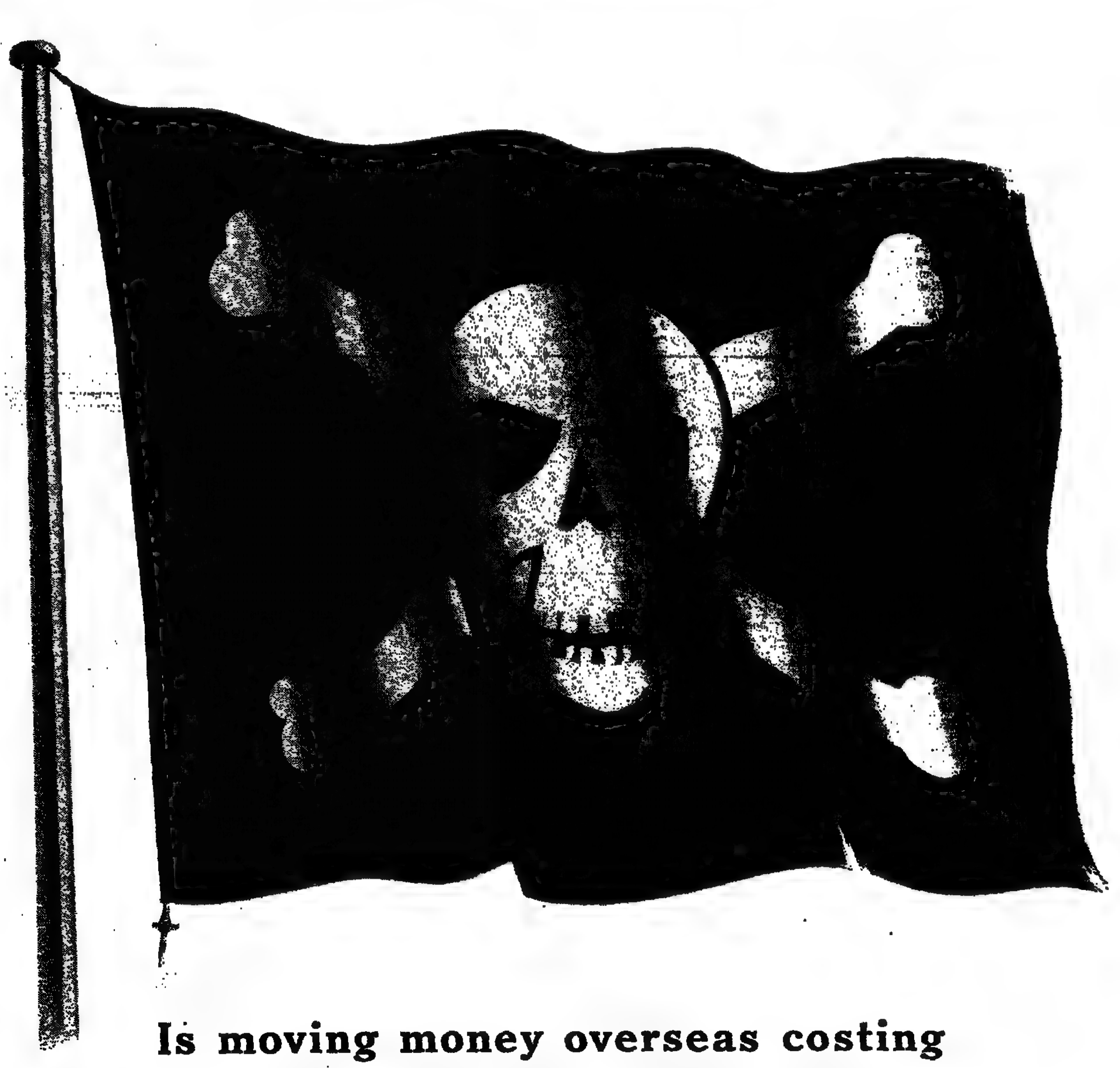
IMPAC, the pensioners' association, suspected that the only reason the benefits were not being provided in the fund (as opposed to the RBS) was the company's wish to transfer surplus to which members were currently entitled, to the RBS where it would belong to the company.

In the absence of any other explanation that was a fair inference.

If correct, it indicated that the company was using its right to withhold consent, not for the purpose of continuing to use assets exclusively for pensions, but for some other collateral purpose. If so, the company would be acting unlawfully.

For the company: John Mowbray QC and John Stephens (Nabarro Nathanson).
For the trustees: Jules Sher QC (Osborne Clarke).
For pensioners: Patrick Howell QC and Sarah Asplin (Eversheds Wells & Hind).
For employees: Geoffrey Toham (Towells).

Rachel Davies
Barrister



MANAGEMENT

Doing business in South Korea

'Head office can't help; you are on your own'

John Ridding offers guidance on a dynamic economy but which has often bewildering customs and culture

All foreign countries are unique, says the manager of the Seoul office of a UK manufacturing company, "but Korea is a little more so."

His sentiment is echoed across a foreign business community attracted by the potential of one of the world's most dynamic economies but often frustrated by the peculiarities of the market. In few other countries do regulations, customs and business culture present a greater challenge.

Over the past few years, the amount of direct foreign investment has been falling. The number of new projects in 1987 was 363, compared with 208 in the first nine months of 1990. The value of new projects *has decreased more sharply*, from \$1.3bn in 1988 to a mere \$630m up to October this year.

Such statistics reflect a shift, rather than a decline, in the appeal of the market. The rapid rise in wages since the introduction of democracy in 1987 has transformed the economy from its cheap labour status, while fuelling a domestic consumer boom. For labour-intensive industries Korea now holds little attraction.

At the same time, however, the rise in per capita incomes to a current level of about \$5000, the prospect of further rapid growth, and the remarkable development of Korea's industrial base all provide compelling attractions for international producers of consumer and industrial products.

But whatever the motivation for investing in Korea, all incoming companies are faced with a series of difficulties.

Potential pitfalls emerge almost as soon as the foreign businessman arrives at Kimpo airport. "Most foreigners come here for the first time and are bewildered by Seoul. The language is strange, and so are the customs. If they manage to find someone who speaks English and is helpful then they tend to hang on to him for all he is worth," says Paul Ridley, general manager for SmithKline Beecham in Korea.

Such dependence, however, makes it difficult to search for the best business partner and means the foreign businessman may receive only selective information from his Korean contact. "I have seen this happen time and time again," says Ridley, who urges prospective investors to use the foreign chambers of commerce.

But even with good information, the next batch of problems is much less tractable. In particular, the type of investment, the group's strategy for the market and how best to achieve it, are managerial problems which are all magnified in the Korean context.

As the market becomes less regulated, choosing between a joint venture, a 100 per cent *owned company, a branch* office, or a licencing agreement, becomes crucial.

The advantages of a joint venture stem from the practical benefits of a Korean partner and regulations which limit the economic activity of foreigners. In theory, the foreign partner supplies the capital equipment, technologies and products, while the Korean partner supplies the working capital, land and employees.

In practice, the link-up is rarely so smooth. "A joint venture is like a marriage," says Marvin Winship, chairman of Dongbu Aetna, a US-Korean insurance joint venture. "It takes a lot of effort."

Alan Plumb, director of merchant banking for Standard Chartered in Seoul, agrees. "Perhaps one in 50 gets to the stage of a well-formed joint venture with harmonious relations and sound finances."

One of the most common sources of tension is the issue of management control. "In my opinion it is worthless to discuss whether you should hold 50 or 60 per cent of the equity in a joint venture," says Rehner Kehl, president of Siemens in Korea. "Once your partner has 10 per cent he is already determining decisions."

This implies a need for flexibility. "When you make a joint venture, you have to accept a Koreanised company. It may take a bit longer to get the best performance and modernise the organisation, but in the long term this is the best way for a business to survive," argues Arnaud Le Bec, who runs a joint venture for Valeo, the French components group.

What this means is that the hard work really starts after the joint venture contract has been signed. "The contract is very important for things like export rights and protection of technology. But in terms of management, forget it," says Le Bec. "Whatever you say will be renegotiated day after day until you find a proper balance. Head office can't help *you, you are on your own.*"

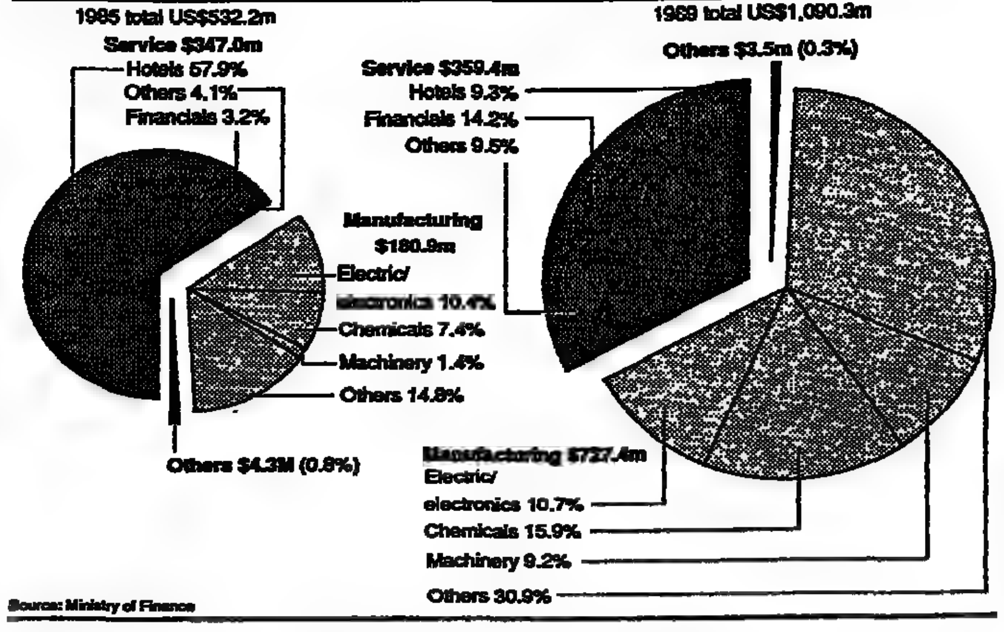
Despite the problems connected with joint ventures, they have several advantages over wholly owned, independent operations. In particular, a Korean partner is often valuable in securing finance – a notorious problem in the country's tightly regulated capital markets. "For a foreign company without a domestic shareholder it is almost impossible to raise money," says Plumb.

This problem is particularly serious given the difficulty – often impossibility – of bringing in capital from overseas. As a result, many companies find themselves living hand to mouth, using short-term loans with interest rates in the region of 20 per cent, just to keep the business running.

"In Europe, bankers are very polite, particularly if you want to borrow money," says Kehl. "Here you must give presents to a bank director so he is willing to give you a loan."

The contacts necessary to raise finance are also important in activities ranging from the purchase of land to the marketing and distribution of products. "Few people fully *appreciate just how important* personal contacts are in Korea," says Ridley. "We think in the UK that we know about the old boy network, but it is nothing compared with here."

Foreign investments by industries



Source: Ministry of Finance

For companies with experience in Korea, however, the relative attraction of joint ventures and wholly owned operations may shift towards the latter. "If you ask me today *I would not automatically* recommend a joint venture," says Kehl, whose company has three joint ventures and a wholly owned business there.

The easing of investment restrictions in several industrial sectors means that a wholly-owned company is becoming more feasible. Last year, for example, the pharmaceutical sector was opened to 100 per cent foreign investment.

At the opposite end of the scale, in terms of investment in the Korean market, is the licencing agreement. The advantages are that a company can keep a very small presence in Korea, avoid problems of hiring staff and reduce administrative costs.

But as with joint ventures, licencing agreements provide limited control. "It is absolutely clear to me that it is impossible to control adequately the marketing and the sales effort of one's product through the licencing route," says Ridley. "The licencee has a portfolio which includes a range of other items and you get the situation where you are not only competing with other *companies* but also internally with the licencee."

Whatever the form of investment, however, there is a range of common obstacles. One of the most frequent complaints is the protracted process necessary to get things done.

It is impossible just to ring up the person you want to do business with. An introduction *by a mutual contact* is a necessary first step, usually followed by a series of meetings in which tea drinking and pleasantries figure larger than business.

There is also the problem that once an agreement is reached at a working level it will mean nothing unless approved by the chairman. Many Korean companies remain highly centralised with all decisions vested in one man.

Protection of technologies and know-how is another headache. In the early 1970s the importation of Beecham's leading antibiotic was banned when a domestic company acquired the expertise to produce it locally. Other pharmaceutical companies have suffered similar setbacks.

There has been substantial improvement. Legislation passed in 1987 extends patent protection to products as well as processes. US companies even enjoy retrospective protection. But the long lead time for new pharmaceutical products means the new legislation has yet to be tested. At the *same time, how to prevent* valuable expertise from falling into the hands of potential competitors remains an important question across the range of foreign investments.

Arguably the biggest challenge facing the foreign investor lies in the field of industrial relations. Horror stories abound – but the situation has improved since 1987 and 1988, when the introduction of democracy prompted the release of long pent-up labour demands. But it is by no means resolved.

This year has seen difficult disputes at American Express and several European banks. The high rate of inflation has managers fearing that 1991 could be even worse.

"There has traditionally been a very deep gap between management and labour. In addition, Korean workers are very emotional," says Kehl, who has been taken hostage three times and had his offices occupied by striking workers.

"Both sides had to learn," he says. "The unions had to learn what is possible in terms of wage and other demands, and we had to learn that the old times of the Sahib have gone. Anyone who recommends that you put pressure on your workers and behave like soldiers is absolutely wrong," argues Kehl.

The bright side of the labour disputes is that even in the most violent and emotional cases, antagonism can quickly die down. "After all the trouble was finished, they forgot about it and I am still the nice guy," says Kehl.

Previous articles in this series were published on July 27 (Italy), October 10 (France) and November 9 (Saudi Arabia).

When nationality does matter

By Christopher Lorenz

The need to preserve national ownership is a "macho" consideration which should not enter business decisions. So says Sir Arthur Walsh, the chairman of STC, Britain's last large independent telecommunications manufacturer, in the process of being sold to Northern Telecom (Nortel) of Canada.

Sir Arthur *is not alone* in this opinion. It is shared by many financiers, academics and members of the Thatcher government. Two years ago Kenneth Clarke, then Industry Minister, declared that to argue about the nationality of a company is "chauvinistic nonsense".

Not always.

In STC's case, Sir Arthur is certainly correct – as he probably was over last week's sale of ICL, STC's computer offshoot, to Fujitsu of Japan.

It has been clear for at least 15 years, even before the liberalisation of national telecommunications markets began, that the number of world telecoms manufacturers would have to shrink sharply. It has been equally evident that no British company had the remotest chance of becoming a major player.

So a foreign takeover of STC was overdue – whether by Nortel, France's Alcatel, or anyone else. The situation became acute after ICL decided that its future lay in the arms of its long-standing Japanese partner, and threw up its hands at the truculence of its fellow European computer companies over the terms of any purely Euro-solution.

The only home-grown alternative for the residue of STC would have been to follow Rover into the lap of a conglomerate parent, such as British Aerospace. This would have lacked industrial logic.

As with Thorn's sale last month of its lamps business to General Electric of America, the first question for the board of any company prey to a bid should be whether it has any real chance of becoming either a global leader in its industry, *or of sustaining* a position as either a local or a regional player – something which is becoming increasingly difficult

If not, the issue becomes which acquiror, regardless of nationality, would best serve the future interests of the company and its stake-holders. This is not only a question of which bid best suits the shareholder's short-term interest, but also which will best sustain and increase the company's competitive advantage.

Closely associated with the last point is what one might call the *quality* of the respective bids, in terms of the degree of skill intensity, high value-adding jobs and decision-making power which the acquired company will be allowed to have over its own affairs, and even over part of the acquiror's business.

This was a major factor in one of the most controversial battles for ownership of a British company, the Rowntree saga of 1988. A merger with the UK's other big confectionery company, Cadbury-Schweppes, was out of the question on monopoly grounds, and in any case would not necessarily have been the best strategic outcome – "national champion" solutions seldom are.

So the battle was fought between two Swiss companies, Nestlé and Jacobs-Suchard. Nestlé, the eventual winner, offered the higher "quality" prospect for Rowntree, since the latter's relatively discrete product line not only gave it some protection against having key activities and responsibilities transferred to Switzerland, but actually prompted some transfer to the UK.

What Nestle was giving Rowntree was a share in the "headquarters effect" which many multinationals still confine to their main national base. Fujitsu has committed itself to treating ICL's software activities in similar fashion. It is in its interest to do so, for both technical and political reasons.

Nortel shows signs of doing the same with STC's transmission business – though such commitments from North American companies are still unusual, and their longevity sometimes doubtful; a "branch plant" attitude to "offshore" operations remains the US norm.

Nationality may be highly relevant, in other words. It all depends on the companies and the circumstances involved.

Game for a laugh: compères Jeremy Beadle, Cilla Black and Bruce Forsyth (with Rosemary Ford)

TELEVISION

Glued to glorified parlour games

Dear Mother and Father,

How is life on the island? Much as ever, I expect. Down here in London things seem a bit unreal, rather like something out of our old Saturday night film shows. Since I last wrote I've been watching a lot of television; making up for a lifetime without it, I suppose. The odd thing is, when I tell people that we've never had television on our island, because we can't get the signal, they all say "Oh aren't you lucky!" But when I visit them they are always watching it. Very often they don't switch off when I arrive, either.

You wouldn't believe how wrong we were about what television must be like. You remember how Father used to read out those bits from the paper and we used to say "But who wants all that sex and violence?" well the thing is, there's not really all that much of it on the box (that's what they call it). It's hard to believe, but the most common sort of programme is what Granny calls a parlour game.

There's one channel called BBC2 where you don't find too many of them, but everywhere else, including the new satellite channels, (*especially* the satellite channels, actually, judging from my stay with Auntie Morag) you find groups of people playing these amazingly simple games, morning, noon and night. Some of them are just like the ones we've always played: charades, for instance (they call it *Give Us A Clue*) and even *Trivial Pursuit*. They've just started that and it's exactly like playing at home except that, the time I watched, three competitors out of the four were absolute dunderheads. They got fewer answers right than wee Hamish. Has he started school yet?

The chairman is a comedian who, I'm sorry to tell you, is called Rory McGrath – nearly all the chairman are comedians – and he was obviously pretty embarrassed about doing such a naff job. (See the slang I'm picking up? I nearly wrote "less answers" just now because that's what everyone says down here). But then even he didn't know the date of the Reform Bill. None of them did; that's English education for you!

The surprising thing about *Trivial Pursuit* is that although having the name on television provides such wonderful advertising for the game you buy in the shops, it's being shown by the BBC. When you come down to it, of course, it's just another quiz, but that's all that most of these game shows are, really. Some of them are specialised, such as *A Question Of Sport* which is another BBC programme, and a new one called *Eye 2 Eye* which has just started on Channel 4.

It is about design, and the competitors on the opening programme were supposed to be "experts" but you would never have guessed. In the first round they were meant to identify world-famous company logos, starting with just a little bit of the design, being shown more if they failed. I got all but one from just the first bit, but the people on the show were hopeless. The artist Peter Blake couldn't recognise the Mercedes Benz sign even after they'd shown him the whole of it and told him what it was.

Most of the quizzes aren't specialised, though, they just ask general knowledge questions. One or two take it fairly seriously and cram in lots of questions, *Fifteen-To-One* for example which is played every weekday afternoon on Channel 4. On this they read out the names of the 15 contestants very quickly and then it's questions, questions, questions from a presenter named William G. Stewart. According to Uncle Ian he used to be the producer of some famous game show called *The Price Is Right*.

Some of his questions I couldn't answer: "Which inert gas takes its name from the Greek for "hidden"?" and "Where are the headquarters of the Surrey County Cricket Club?". But he also asks simple things like "What does GNP stand for?" and "How many fiddlers did Old King Cole call for?" Do you know, none of the competitors could tell him which Greek god Mercator put on the title page of his map book; I wonder if they know what a book of maps is *called*.

There seems to be an inverse ratio between the seriousness of the quiz show and the value of the prize. In the most serious of all, *Mastermind*, where you have to get through umpteen rounds and have a mind like Whitaker's Almanac, the winner gets a glass fruit dish. But in something like *Strike It Lucky* (where you have to say which of the following words means an arrow case: cochineal, Tolstoy, polonaise, quiver, supervia) you can win up to £3,000 in a single half-hour show.

Aunt Morag was saying that giving away all those prizes must make the programmes terribly expensive, but Uncle Ian said that, considering the sort of audiences they attracted, £3,000 was nothing. If you can believe it, he says half an hour of a drama like *Portrait Of A Marriage* which the BBC showed earlier this year (that *did* have a bit of sex in it, they say) now costs more than £300,000.

The other fact you notice when you start watching lots of these game shows is that really they're also chat shows. We've read all about those, you remember, and usually they're full of famous people – writers, film stars and so on. The thing about the game shows is that they are the only places on television where you see *ordinary* people chatting about their lives. This can take up more than a third of the programme, and they often have "ad libs" which end in a joke of some sort and are awfully embarrassing because you can tell how hard they have rehearsed them.

The most important thing about the competitors is not that they are clever (I suppose the producers reject clever people in case they make the viewers feel stupid) but that they're "good sports", in other words that they'll laugh when they are made to look foolish. This is even more important, in fact it is the central element, in another sort of programme, very like the game shows but even more popular. There's one called *Bruce Forsyth's Generation Game* and another called *Beadle's About*.

Both these specialise in making people look silly. In *The Generation Game* the principle is exactly the same as Granny's old party trick with the two plates where she gets the guest to copy every action she makes, drawing her finger across the underside of the plate, then down her face, without the guest realising that her plate is clean whereas theirs has been blackened over the oil lamp. Mr Forsyth has an expert do something every week – make animals out of balloons, dance the tango – and then has the contestants attempt to copy their every action, with disastrous results of course.

Apparently *Beadle's About* is descended directly from that 1940s American radio programme that Grandpa used to tell us about, *Candid Microphone*, which it seems was followed by a famous television series called *Candid Camera*.

My friends' parents say that *Candid Camera* was a pretty harmless series: they'd freewheel a car onto a garage forecourt and ask the attendant to check the oil, only for him to find no engine, or arrange for a vending machine to talk back to the customers.

The tricks they play on *Beadle's About* are far more cruel. They pushed one man's car into a quarry, and had a seemingly inept driver of a mechanical digger smash up another man's car – quite a new one – before his very eyes. This week they pretended to be the water board, dug up a man's beautiful lawn while he was out, and when he came back and got very angry they fired great geysers of water all over him.

The hosts of these shows pretend it is "just good fun", but if the "guests" ever managed to turn the tables and make Mr Forsyth or Mr Beadle look really silly I am sure it would be edited out. The hosts are clearly aware of the hypocrisy involved: Mr Beadle had himself sprayed with water this week, pretending it was a trick sprung on him by his production team. But although he got wet (for his fee who wouldn't?) he did not have to suffer the anguish or the embarrassment of the real victims, and did not then have to go through the dreadful business of pretending to take the whole thing in good part in order to avoid the accusation that he was a bad sport who couldn't take a joke.

Quite honestly, after a few weeks of these shows I miss our ceilidhs. With our population of 154 we seem to have so much more variety. And talent. And fun!

Lots of love, Kester, a.k.a.

Christopher Dunkley

Les Troyens

COVENT GARDEN

Scottish Opera are this week giving their first-ever short season – too short: only three performances – at the Royal Opera House. It is made up of two performances of *Les Troyens* and one, between them, of Judith Weir's *The Vanishing Bridegroom*: in sum, a brilliantly bold, ambitious calling card.

Monday's *Trojans* was, for linked reasons, a great occasion: the return of this opera, in full, to the London opera stage after an unbearably long time (18 years, actually), and the first showing here of Tim Albery's magnificent modern production. This has been shared between, and performed by, Opera North, WNO and Scottish Opera over the last four years, so opera-lovers in the metropolis have at last the chance to enjoy and admire what has been thrilling them in the regions.

London's not entirely comfortable or accommodating theatre caused the company a few problems: the far-back positionings of Cassandra and Chorebus in the opening scene of Troy seemed risky as they had not in the more intimate houses of Leeds and Cardiff, and orchestral ensemble was not always true. But once the performance began to gather its special sweep, no minor obstacle could be allowed to get in its way.

The miracle of this production – apart from the cool (and sometimes startling) beauty of the Cairns-Macdonald designs, which delight the eye in every act – is the way it marries antique sensibilities (such stillness! such a shimmer of meridional tranquility!) and late-20th-century poetic resonances. The Albery vision and style possess the work, make it new, while at the same time preserving the moral and spiritual core of Berlioz's art.

Andrew Clements showered praise on the Scottish Opera performance in September. I must add my words of tribute to the exquisitely beautiful Dido, supply and liquidly sung, of Kathryn Harries and to the grandly passionate, proudly declaimed (in notably fine French) Cassandra of Katherine Ciesinski – the two great roles dominating the evening, and leaving their stamp on the drama, in ways that testify to the special intelligence of the production. Seppo Ruohonen, not an heroic figure, sings Aeneas more securely than many a more appropriately built singing-actor; with the exception of the vocally miscast Chorebus, the whole company rises to the opera with enthralling conviction.

In the programme John Mauceri writes with characteristic intelligence about the structural relationships of Berlioz's metronome marks. In practice I found much of his conducting rushed, particularly in the Trojan episodes – there seemed too little willingness to let the extraordinary feats of scoring (harsh, hollow) and melodic and harmonic movement register their points of dramatic impact. For all that, Monday's was a performance of cumulative power that sent one out of the theatre once more elated by Berlioz's greatness.

Max Loppert

Katherine Ciesinski: grandly passionate as Cassandra

Leonce and Lena

THEATRE IM DEPOT, STUGGART

On the train to Stuttgart, I read *Leonce and Lena* and laughed loudly several times. A few hours later, Buchner's "Lustspiel" was squashed into an evening of relentless sobriety at the Theater im Depot. Folly flapped into melancholy; anarchy was straightened out into decorum. No one doubted the seriousness of Buchner's questions about love and life, but the laughs were missing.

A German revolutionary, Buchner made his name with the tragedies *Danton's Death* and *Wozzeck* before he died in 1837, aged 23. Here, his targets are the petty despots who carved Germany into mini-kingdoms (this was before round one of German unification). *Leonce and Lena* is a satire in which a prince and princess are so worn out by privilege that they sink into suicidal apathy until each discovers a soul-mate in the other's nihilism. Stephan Benson and Karin Pfammatter are convincing enough as the spoilt pair looking for spiritual kicks, while the supporting cast are gracefully foppish – philosophical King Peter (Heinz Gunter Kilian) bloated, bald and bemused by his crown; his attendants following him like aimless squiggles. But they only work as puppets; my quarrel with this production is that there is no glimpse of the clown stalking the courtier, or the satirist behind the stargazer – and this in a play whose epigraph is Jacques' "I am ambitious for a motley coat" and whose hero quotes Tristram Shandy.

Like Shakespeare, Buchner was fascinated by mental and emotional extremes and his Prince Leonce faces all the dilemmas faced by Prince Hamlet – sein or nicht sein, what to do about his faithful girl (Doris Metz), whether he wants the crown from his father – only to see each one resolved by comic debacle. Maybe Stephan Benson will warm up into a more individual Leonce; now, it is hard to identify with him or with the humour of his position. By contrast, his sidekick Valerio (Willem Menne) is an accessible vagabond who peels back mask after mask until, as in the onion metaphor in *Peer Gynt*, he fears there will be nothing left of him.

Johannes Klett's production turns on life as a spectacle. Klett is also a painter and his formally beautiful settings are the core of his very visual interpretation. In this tram depot-turned-theatre, one of the tramlines has found its way on to the stage as an illuminated metallic circle which encloses the action and spins round and round, an image of life's repetitive tedium.

Recalling Lewis Carroll's Red Queen, Leonce and Valerio run madly up and down it in order to stay in the same place. Behind, screens display pictures in changing states of illumination, from boldly coloured to sepia; above, a balcony framed by gold leaf resembles a gilded bird cage, the perfect frivolous prison for Princess lena. It works as an exhibition piece; the problem is bringing it to life.

Jackie Wullschlager

Chamber Orchestra of Europe

BARBICAN HALL

Which is the more expressive? The back of the head with its cheeky tufts of hair over the ears, the flick of the wrist, or that enormously long baton that seems to have a life of its own? Even when he is facing the other way, Gennady Rozhdestvensky manages to give the impression that his smile is beaming out across the orchestra.

On Monday he was in London to direct the Chamber Orchestra of Europe in the second of its *four* concerts at the Barbican. This was the all-Shostakovich programme, which had drawn nothing like the capacity audience that it deserved. A great shame, as the balance of works, contrasting the satirist Shostakovich with the tragedian, was well chosen and the COE more than lived up to its reputation as a technically remarkable young orchestra.

They began with the bitingly witty suite from *The Nose*. It seems a long time now since the New Opera Company gave its production of the opera at the London Coliseum and memory of those stage performances did not suggest that the music would be half as entertaining out of context as it proved here, thanks to some high-spirited playing (wickedly spiteful wind solos) and a splendid cameo from Adrian Thompson as the drunken tenor.

Among the interpreters of Shostakovich that we see regularly in London, Rozhdestvensky is arguably the most idiomatic. He favours a style less indulgent than Rostropovich, not so lovingly lyrical as Ashkenazy, marvellous though some of his performances of the symphonies have been. Objectivity is the key and Rozhdestvensky has that when it is needed, as his spruce account of the First Piano Concerto with Viktoria Postnikova showed.

It paid dividends, too, when the evening turned to the composer's darkest side in the Fourteenth Symphony. Of this, Rozhdestvensky gave us a truly intimate and concentrated account. With Sarah Walker and Dimiter Petkov as the soloists the vocal parts were in safe hands, the mezzo expressive, the bass providing a basically dark and imposing Russian sound of the kind the symphony presupposes.

What made the music-making so compelling, though, was the feeling that the performers were listening to each other, the singers to the orchestra, but especially each player to every other. The Chamber Orchestra of Europe really is worth hearing: its other two concerts are on Friday and Monday, when Paavo Berglund conducts *Sibelius*.

Richard Fairman

ARTS GUIDE

November 30-December 6

THEATRE and OPERA

London

The Rehearsal (Garrick). Jean Anouilh's play directed by Ian McDiarmid with costumes by Jasper Conran in a production that has received excellent reviews (071 379 6107).
Aspects of Love (Prince of Wales). Andrew Lloyd Webber's latest is an intimate chamber operetta derived from David Garnett's 1955 novella. Musically interesting and well directed by Trevor Nunn. (839 5972).
Hamlet (Lyric Hammersmith). Cheek by Jowl's idiosyncratic production, directed by Declan Donnellan (071 839 2244).
Absurd Person Singular (Whitehall). Revival of early Ayckbourn comedy, directed by the master himself, about three couples at Christmas in three kitchens over three years. Moira Redmond, Richard Kane and Lavinia Bertram on fine form in a production which confirms Ayckbourn's early bleakness (071 867 1119). Extended until January.
Man of the Moment (Globe). Nigel Planer and Gareth Hunt in another Alan Ayckbourn play, this time about media manipulation (437 3667).
Miss Saigon (Drury Lane). Spectacular and successful musical about a love story between an American GI and a Vietnamese girl during the fall of Saigon in 1975 (071 836 8108).
Into The Woods (Phoenix) Julia Mckenzie shines as the witch in Stephen Sondheim's compendium of *fairy tales*. The title song is more memorable than a storyline that descends into recrimination and chaos as the characters' dreams turn sour (867 1004).
Cats (New London). The formula of T.S. Eliot words, Lloyd Webber music and feline dance has made this Britain's longest running musical (405 0072).
The Rocky Horror Show (Piccadilly). Revival of the 1970s classic, directed by Robin Lefevre (071 867 1118).
Royal Opera, Covent Garden. A new production by Adolf Dresen of *Fidelio* conducted by Christoph von Dohnanyi has Gabriela Benackova, Jan Blinkhof, Monte Pederson and Robert Lloyd in leading roles.
English National Opera, Coliseum. *Cosi fan tutte*, in John Cox's stylish 1980 production, returns with a new cast, led by Rita Cullis and Glenn Winslade, and Peter Robinson as conductor. Further performances of the new double bill – Delius's *Fennimore and Gerda*, Puccini's *Gianni Schicchi* – conducted by Charles Mackerras, produced by Julia Hollander with casts including Sally Burgess, Peter Coleman-Wright, Benjamin Luxon and David Maxwell-Anderson.

Paris

Opéra Palais Garnier. Choreography by Balanchine, Lubovitch, Garnier and Kylian to music by Stravinsky, Pacher and Janácek (47425371).
Bastille Opéra. The controversial opera's season opens with Verdi's *Otello* conducted by Myung-Whun Chung with Cornelin Murgu in the title role, with Renato Bruson as Iago and Kallen Esperian as Desdemona (40011616).
Chatelet. Broadway musical *42nd Street* to Harry Warren's music in a production supervised by Mark Bramble (40282840).

Berlin

Opera. *Der Barbier von Sevilla* is a well done repertoireperformance. *Siegfried*, part of the successful Götz Friedrich Ring cycle features Anne Evans, Anne Gjevang, Jane Giering, Toni Kraemer and Robert Hale. *Zar und Zimmermann* is sung by Gudrun Sieber, Barbara Scherler and Peter Maus. Also *Rigoletto* and two advent concerts with the Wernigerode School Choir.

Hamburg

Opera. *Die Hochzeit des Figaro* brings Charlotte Margiono,Hellen Kwon, Alan Titus and Lucio Gallo together. *Hänsel und Gretel* conducted by Carlos Kalmar has Gabriele Rossmanith and Olive Fredricks excellent in the title roles. *Tosca* is well sung by Ghena Dimitrova, Vasile Moldoveanu and Franz Grundheber.

Barcelona

Gran Teatre del Liceu. Uwe Mund conducts Wagner's *Die Walküre*, with a cast led by Montserrat Caballe and Johann Meier. Ends December 17 (412 14 66).

New York

Falsettoland (Lucille Lortel). It will be known as the first musical about Aids hitting New York but it goes much further than that, showing the effect on a larger circle of people, who include a boy having a Bar Mitzvah and his parents, all three of them (924 8782).
Grand Hotel (Martin Beck). Tommy Tune, Broadway's present musical doctor, directs this remake of the Garbo film to shake the bones of this inert depiction of lives criss-crossing in an elegant, but somewhat random setting (246 0102).
Cats (Winter Garden). Still a sell-out, Trevor Nunn's production of T.S. Eliot's children's poetry set to music is visually startling and choreographically feline (239 6262).
Les Misérables (Broadway). The magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama (239 6200).
Phantom of the Opera (Majestic). Stuffed with Maria Bjornson's gilded sets, Phantom rocks with Andrew Lloyd Webber's haunting melodies in this transfer from London (239 6200).
Gypsy (St James). This 30th anniversary production is a reminder of the heyday of the American musical with memorable tune after memorable tune, as well as a forceful plot about the ambitious stage mother who encourages her daughter into burlesque (246 0102).
Metropolitan Opera. Marilyn Horne, Chris Merritt and Samuel Ramey perform in John Copley's new production of Rossini's *Semiramide* conducted by James Conlon, who also conducts *Salome* with Hildegard Behrens, Helga Dernesch and Peter Kazaras in Nikolaus Lehnhoff's production. James Levine conducts Arvin Brown's production of *Porgy and Bess* with Priscilla Baskerville, Marvis Martin and Terry Cook. (362 6000).

Chicago

Other People's Money (Royal George). Corporate takeover artist Larry "the Liquidator" Garfinkle is played for all his mischievous worst by Peter Van Wagner in Jerry Stern's funny and telling view of contemporary finance, directed here by the star of the off-Broadway production, Kevin Conway (988 9000).
Phantom of the Opera (Auditorium). The midwestern production stars Karen Culliver surrounded by the familiar chandelier and other heavy duty props in a full blown staging (902 1919).
Lyric Opera. Leo Nucci has the title role of Rigoletto in Sandro Sequi's production conducted by John Fiore. Donato Renzetti conducts Andrei Serban's new production of *Lucia di Lammermoor* with June Anderson as Lucia and Alfredo Kraus as Sir Edgar. Civic Opera House (332 2244).

SALEROOM

Van Gogh and Picasso fail

The recession in the art market really hit home at Christie's on Monday night when the auction house contemplated its most disastrous major Impressionist and 20th century picture sale for years. Only 24 of the 63 lots on offer found buyers and the three most important pictures, two by Van Gogh (including one owned by Elizabeth Taylor) and a Picasso, were all bought in. By value the sale was 75 per cent unsold, totalling just £10.3m. The depth of the slump is revealed by setting Monday alongside the comparable auction a year ago when Christie's achieved a record sale total for Europe of£76.5m.

Estimates and reserves had been cut in expectation of poor demand but many pictures coming from France could not have their value reduced without breaking export regulations. Most of the lots which sold went below estimate. Elizabeth Taylor's Van Gogh – a view of his asylum at Saint-Remy, achieved a top bid of £5.8m against an estimate of £8m-£10m. Ms Taylor paid £92,000 for the painting in 1963. The other Van Gogh, of a reaper, was unsold when bids stopped at £2.6m, half its estimate, and the Picasso, an early work of 1901 showing young girls dancing, failed at £4.5m.

The only achievement was selling a large Pissarro snowsacpe for £1.65m, while a Van Dongen, "Femme fatale", (once owned by Ingrid Bergman), sold for £1.43m. Another Pissarro made £1.1m. It had been bought for £600 in 1943 and was one of a group of ten works which cost the vendor £5,000 when bought a generation and more ago and which sold for £1.62m on Monday, suggesting that art must be seen as a long-term investment.

Dealers are over-stocked with art; speculators have been scared away by the fall in prices; and connoisseurs are waiting for prices to drop even lower. With a growing recession, and fears of war, confidence has quickly drained away.

Matters were little better on Tuesday when Impressionist and Modern watercolours and drawings brought in £2.5m at Christie's, with 54 per cent unsold. Helped by the current show in London, a fairly decorous portrait of a woman by Egon Schiele beat its estimate at £220,000, and there was a record for a Grosz watercolour of £187,000. Another German work also made a record, £176,000 for a pastel by Kirchner.

There was some consolation at Christie's South Kensington where tribal art was 93 per cent sold. An Easter Island figure,dating to the 18th century, far exceeded target at £49,500.

Antony Thorncroft

FINANCIAL TIMES
NUMBER ONE SOUTHWARK BRIDGE, LONDON SE1 9HL
Telephone: 071-873 3000 Telex: 922186 Fax: 071-407 5700
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Europe's lost cousins

THE Balkan countries are Europe's forgotten cousins. Before last year's revolutions which toppled the communists from power, western governments naturally paid attention to Poland, Czechoslovakia and Hungary. These countries had articulate independent opposition movements and vibrant intellectual communities. They could also boast an articulate diaspora. Today, these opposition movements nervously hold the reins of power. They have sympathy from their western friends.

Romania and Bulgaria have never had such luck. History bequeathed to them centuries of misrule and broken promises of land reform. Communism saddled its largely conformist, peasant population with the worst excesses of Stalinism. The tiny intellectual and middle-class elites were repressed and socially marginalised. Indeed, one of the lasting vestiges of communism was the way in which it catapulted peasants into the ambience of power. They became dependent on the state, which, abetted by the conformist Orthodox Church, was invested with enormous influence. These Balkan countries became a backwater of Europe and could remain there unless western governments, and the new democracies of eastern Europe, prevent it.

Last year's revolutions showed that the countries of eastern Europe have no feelings of mutual solidarity. Antipathies and ethnic tensions, which were evident after the collapse of the Habsburg empire in 1918, were suppressed by communism. Today, the past is being revisited. Poles, Czechs, and Hungarians have disingenuously divided eastern Europe between Central Europe and the Balkans; between reformers and old communists; between liberals and authoritarians.

Impossible promises

These prejudices could be confirmed by the recent free parliamentary elections, in which Bulgarians voted for the Socialist (former communist) party and Romanians for the National Salvation Front, a safe house for the communist bureaucracy. As a result, western governments have shunned these governments. But they were elected because there were no experienced, articulate opposition parties to explain that promises of full employment were impossible to maintain, that the market economy would be painful. Besides, workers had had enough of change. After the second world war, the communists uprooted peasants from the land into factories as part of their ambitious programmes of industrialisation. They want no more upheaval. They want protection by the state. Today, the rationing and the black market show the extent to which the state can no longer provide. This is one of the reasons why last week angry demonstrators forced Mr Andrei Lukanov, the Bulgarian prime minister, to resign.

Fertile ground

If western governments delay in providing assistance, the region will become a fertile ground for neo-fascists, nationalists and instability. This is already happening in Bulgaria, Romania and in parts of Yugoslavia. To forestall such developments, the governments of the first two have repeatedly asked for assistance from the London-based Know-how Fund and from the Group of 24 industrialised countries. Advice would mean recognition for their attempts at reform. It could also begin the flow of credits for stabilisation programmes without which poverty and populism will increase. Without any acknowledgement from western governments, anti-western sentiments could flourish.

Aid must be strictly linked to human rights, parliamentary democracy and a respect for ethnic minorities. Civil liberties have historically weak roots in the Balkans. Western support must also extend to allowing these citizens to travel and see how other systems function. Austria and Poland now demand visas from Romanians and Bulgarians. Yet the expectations for quick results are highest in those countries prevented in the past from travelling. Those expectations must be dampened, not by exclusion, but by inclusion into the new Europe. Otherwise, these countries will again slide into misrule and anarchy.

Regulating British Gas

THE intervention yesterday in the affairs of British Gas by the industry's regulator is without precedent in the short history of regulating privatised UK utilities. The Office of Gas Supply not only specified a target market share which British Gas must surrender; it also placed a question mark over the company's future if British Gas failed to meet the target.

Mr James McKinnon, director general of gas supply, wants British Gas to help its competitors win 30 per cent of the main industrial gas market by 1993. The size of that task can be gauged from the share held by new entrants at present – two years after a pioneering Monopolies and Mergers Commission report designed to break open the market. British Gas's competitors now account for just 2 per cent of industrial gas sales, according to Mr McKinnon's calculations.

Mr McKinnon's latest intervention is an implicit recognition of the failure of the Monopolies Commission's remedies to work quickly enough. The Commission ordered that British Gas must not buy more than 90 per cent of the gas from new North Sea fields, thereby leaving a residue of supplies for the fledgling competition.

Companies such as British Petroleum, Shell, Esso and Mobil have entered the industrial gas market for the first time this year. But Mr McKinnon sees two main problems in the current arrangements: first, much of the gas not contracted to British Gas will be burnt by power stations, rather than in the general industrial market; second, British Gas's new competitors will be hindered by a lack of gas for at least the next three years.

Surrendering supply

The regulator is proposing that British Gas surrenders some of its own supplies to its competitors to help them become established. Mr McKinnon yesterday used blunt language to blame British Gas for the slow pace of liberalisation. Yet a fairer target might be the flawed structure which the industry was given at its privatisation in 1986.

Indeed, in issuing threats of dire action against British Gas, the regulator appears to have in mind an industry structure which might have been preferable in the first place. Mr McKinnon envisages a "draconian solution", whereby the gas grid could be spun into a separate company and the remainder of British Gas split up into competing regional concerns – much like the model adopted for the privatised electricity industry.

Target market share

However, it is one thing to argue that this would have been a better blueprint for the gas industry. It is quite another to view this proposal as appropriate for a company which was sold on a different prospectus just four years ago.

Mr McKinnon argues that the possibility of British Gas falling foul of the competition authorities was implicit in its privatisation prospectus. But at this stage it is to be hoped that the company will avoid further surgery by responding to the regulator's concerns: indeed, this is undoubtedly what Mr McKinnon hopes.

Is it appropriate for a company to be given a target market share to surrender to its competitors? British Gas's reaction yesterday – that its competitors are also responsible for the pace at which competition unfolds – deserves some sympathy. The better course, if Mr McKinnon remains convinced that competition is not working, would be to refer the matter again to the competition; the 90 per cent rule is in any case due to be reviewed next year.

The wider issue raised by Mr McKinnon's statement is the future of regulation itself. The regulators of the telecoms and gas industries say that their overriding goal is to relax the regulatory straitjacket by fostering competition. Yet recent events have raised worries about the regulators extending their activities beyond the limits originally envisaged.

The first group of regulators are able men who have broadly served the users of regulated services well, even if they could sometimes be more open about the factors shaping their decisions. But the time may be approaching when a review is needed of the future course of utility regulation itself.

New competitive challenges are forcing Japanese companies to reassess their world market strategies, writes **Guy de Jonquières**

Industry hits a cultural barrier

WHEN Honda, Japan's third-largest car maker, set out in the mid-1980s to re-design its successful Accord model, its initial intention was to develop one product range to be sold worldwide. But the company soon realised the idea would not work.

Honda's engineers in Japan wanted a status symbol car for a country where highly congested roads restrict driving. But its US designers demanded a workaday vehicle, able to travel long distances on wide open highways. The upshot was a different range for each market, without a single major component in common.

The experience, which mirrored Ford's failed attempt a few years earlier to develop a "world car", has taught Honda a vital lesson. In the words of one company executive: "For us, the most important priority is not to globalise our business, but to localise it."

That message is spreading at varying speeds across other Japanese industries from consumer products to computers and telecommunications. They are realising that rapid product innovation and manufacturing excellence, the bedrock of their competitive strength for the past 30 years, are no longer enough to meet the needs of an increasingly sophisticated and complex world market.

Some western companies have reached a similar conclusion. IBM, for instance, has stopped trying to impress customers with technical wizardry and is wooing them instead with promises of superior service, ease of use and custom-tailored solutions to their business needs.

In the worldwide search for sources of profit and value beyond manufacturing, Japanese industry holds one big advantage over its western rivals. More Japanese companies are closer to having a "global" presence since they dominate their home market as well as serving the US and Europe by exports and local production.

Their problem, however, is that their international product strategies are still driven overwhelmingly by their domestic market. Products which do well abroad are usually launched first at home, where vigorous demand has enabled production volumes to be built up and unit costs to be reduced rapidly.

The formula worked brilliantly while the name of the game was simply to churn out standard products in large quantities. But it is becoming less effective where economies of production scale are no longer critical, or where the goal is more than simply catching up with the west.

US acclaim for Toyota's Lexus luxury saloon shows that Japan's talent for developing world-beating products is as keen as ever. However, Toyota had a clearly-defined target: to find out what makes BMW and Mercedes-Benz cars attractive and match it.

The limitations of the approach are shown up by the experience of NEC, the large electronics group. In Japan, NEC is the leading supplier of personal computers. Yet international sales have been disappointing, because NEC's machines do not meet the IBM-compatible standard dominant almost everywhere else.

Indeed, in spite of its formidable strengths, the only important electronics product for which Japanese industry has so far established a world standard is video-recorders.

NEC's efforts to sell digital telephone exchanges in the US have also proved unrewarding. Though its equipment is technically excellent, the company is struggling to meet American telephone companies' demands for the complex software needed to reduce operating costs and offer new types of information services.

"The telephone companies are worried about our ability to support them," says Mr Toshiro Kunihiro, head of NEC's telecommunications division. "The problem does not lie in our software design capability, but in really understanding what our customers need. That is the single biggest challenge our company faces."

"In the past, the demands of world markets were uniform, and we succeeded by simply making improvement after improvement," he says. "But now we need a better idea. The logical conclusion is that NEC cannot continue to expand its global business without changing its culture."

Kao, Japan's leading soap and detergent maker, which enjoys a formidable reputation at home for product innovation, sees similar obstacles to its efforts to expand overseas. "It will take five to 10 years before we start understanding foreign customers," says Dr F Tokiwa, Kao's president.

The full extent of the challenge is probably still masked by strong demand in Japan, which has kept many manufacturers busy simply meeting orders. But as growth tapers off, more companies are likely to find their home market has become less reliable, not only as a source of profitable business but as a guide to what products will sell well internationally.

Professor Tadao Kiyonari of Hosei University, an adviser to the ministry of international trade and industry, believes a decisive turning point is approaching. Japanese companies' international expansion has hit a "cultural barrier", he says, which few yet know how to tackle.

The need for a new strategy results from three developments:

- Japan's superlative low-cost volume production methods have turned many previously expensive products, such as televisions, into commodity items with low margins.
- In response to that trend and to yen appreciation, Japanese manufacturers are fast shifting up-market into more sophisticated activities which offer higher profits and added value.
- Meanwhile, Japan has become the world leader in products such as cars and technologies such as electronics and new materials. In these areas, its industries can no longer seek inspiration from the west but must depend increasingly on their own powers of invention.

Japanese companies are realising that manufacturing excellence is no longer enough to meet the needs of a sophisticated market

These changes have unleashed a drive for creativity and innovation, reflected in surging investment in research. Between 1979 and 1989, Japan's annual spending on basic research rose from Y6,000bn to Y12,000bn, while industry's share doubled to 43 per cent of the total. Japan now has 500,000 scientific researchers – more than any country except the US – many working in recently established corporate laboratories.

The race to advance the frontiers of technology, rather than just exploit it, is likely to make life much harder for companies which fail to keep pace. But even some which are committing large resources admit they are taking a leap in the dark. Canon, the copier and camera maker, says it may need another 10 years to judge whether its five-year-old research laboratory can make any commercially useful discoveries.

Japanese industry is also under pressure from another direction. In the past, few companies have done much market research before launching a new model, opting instead to shower the market with products and let consumers decide.

However, Darwinian selection is becoming less practicable, even at home. As Japanese companies' products become more sophisticated, and development spending rises, picking winners requires much more careful analysis of consumer tastes and trends.

"In the past, we could see market needs very clearly," says Mr Ichiro Fujimoto, head of R&D at consumer electronics manufacturer Sharp. "But from now on, they will become more diversified. We must do more in-depth studies of what consumers really want. Research must be more focused. We must explore potential needs hidden below the surface."

This is true even in Japan, where many consumer product companies have recently set up "antenna" shops and "life-style centres" to probe shoppers' reactions to new products.

Abroad, however, harnessing technology to demand is increasingly complicated by the bewildering diversity of cultural and psychological factors which govern market behaviour. Japan is discovering that its highly developed sense of being "different" from the rest of the world is a diminishing advantage.

Bigger Japanese companies have long outgrown their reliance on international trading groups to distribute their products overseas. Now they are exploring a variety of ways to get closer to foreign customers. They include:

- Establishing research, design and engineering centres in the US and Europe. None of these has yet developed an important product from scratch, and many simply adapt products to local markets. But some are starting to make an input into the design of products developed in Japan.
- International alliances and joint ventures, frequently at the initiative of western partners. Daimler-Benz of Germany, for instance, is discussing a wide-ranging alliance with the Mitsubishi group.
- Acquisitions, which have often grown out of long-standing links with western companies. Recent such deals include Fujitsu's purchase of ICL, Britain's largest computer maker, Sony's takeovers of CBS records and Columbia Pictures of the US and Matsushita's planned $6.6bn acquisition of MCA, the US film company.

In most cases, the initial approach has also come from the western companies – some of which wanted financially strong partners – though that has not always prevented hostile local reactions. On the Japanese side, an important motive is to gain local market knowledge and access to valuable western expertise in areas such as software and systems integration.

But all these alternatives face big uncertainties, which are rooted in Japanese companies' structure and management methods. In many successful Japanese groups, rapid innovation is the life-blood of business strategy and relies on continuous and complex inter-action between R&D, product design, manufacturing and marketing.

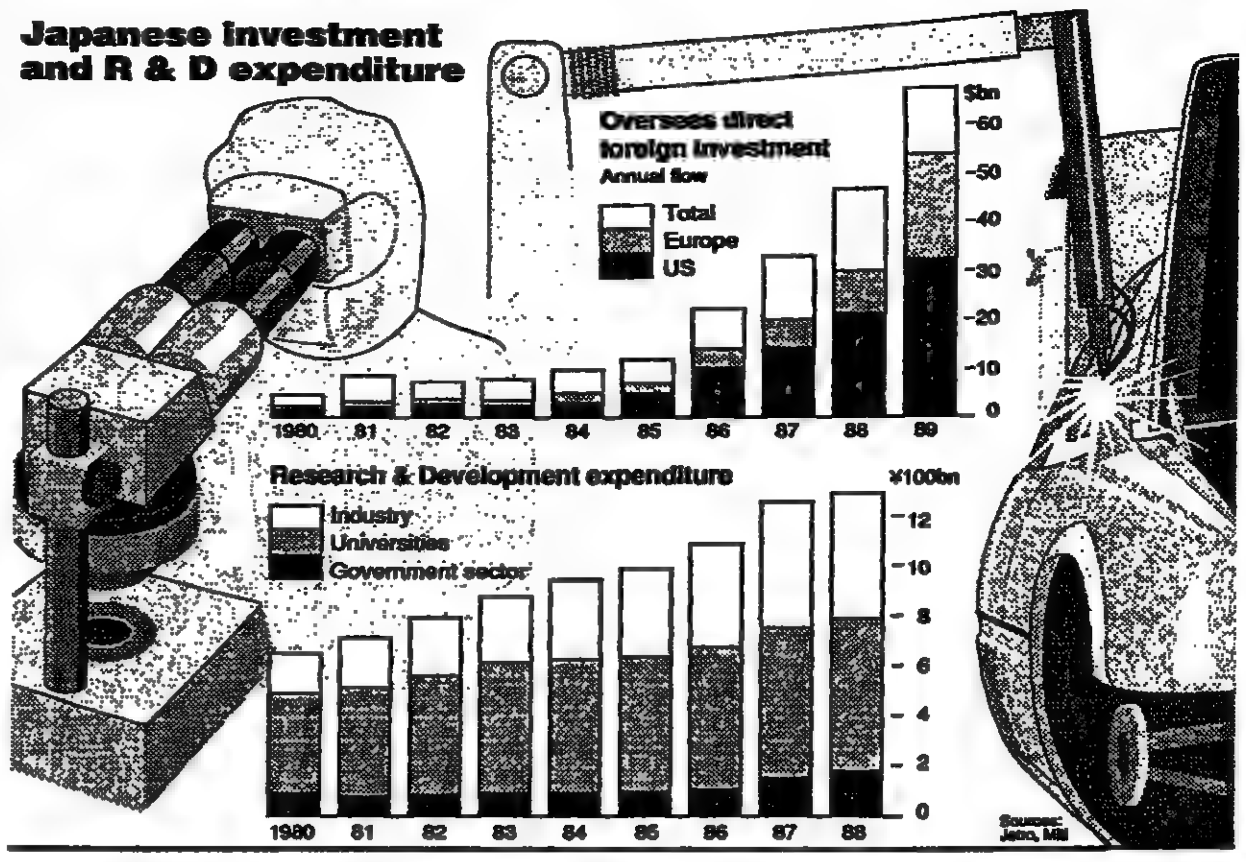
It remains to be seen how far this tightly integrated system can be disaggregated and spread around the world. Apart from the difficulty of maintaining the close personal communications essential to the Japanese system, there is strong bureaucratic resistance in many companies to sharing authority with engineers and managers overseas.

Furthermore, if Japanese companies are really to lay down deeper roots in western markets, they will have to accept foreign employees as equals and give them a bigger say in management and corporate strategy. High-quality foreign managers will in any case prove hard to recruit if they are denied such rights.

Honda and Sony, the pace-setters in Japanese industry's drive to internationalise, have concluded that the only long-term solution is to "clone" their businesses around the world. Both companies aim to give their US and European subsidiaries the functions and authority needed to enable them to operate as semi-autonomous units.

That goal will demand determination and patience. Honda says it needed 10 years to transfer its technology to its US assembly plant. It reckons the far more complex task of establishing a fully-fledged American development facility will take much longer. "The key is people," says a Honda executive. "It can't be done by textbooks. It has to be done face-to-face."

A lengthy and strenuous learning process is in prospect, which will require substantial changes in the way Japanese companies operate at home as well as abroad. However, the hallmarks of Japan's industrial development since the Second World War have been perseverance and ingenuity in surmounting obstacles which many in the west had blithely assumed to be insuperable.



Black to open

■ The opener in what seems sure to be a series of moves to recruit Margaret Thatcher to company boards is tipped to come from Conrad Black, Canadian proprietor of the Daily Telegraph.

A conspicuous admirer of the deposed prime minister, he is expected to invite her onto the board either of the Telegraph itself or of his Toronto-based holding company, Hollinger.

She would be in interesting company at Hollinger. Current directors include her former cabinet colleague Lord Carrington, erstwhile US secretary of state Henry Kissinger, and Paul Reichmann, master strategist of Olympia and York, developer of the Canary Wharf project in London's Docklands.

Thatcher was Black's guest of honour at the 1988 Hollinger annual dinner, which is held at the Toronto Club and has become one of the highlights of Toronto's social and business calendar. His other guests over the years have included Ronald Reagan.

Besides its 77 per cent stake in the Telegraph group, Hollinger – whose head office is in a splendid 150-year-old former post-office building on a quiet downtown Toronto street – owns the Jerusalem Post and about 200, mostly small-town newspapers in the US and Canada.

Surprise call

■ Meanwhile delegates at a Centre for Policy Studies meeting in London yesterday were left wondering if John Major is going to call a snap election after all. The chairman of the event, a "curtain-raiser" to the inter-governmental conference in Rome next week, and a leading speaker were suddenly spirited away by an urgent summons from Downing Street.

OBSERVER

They are CPS director of studies David Willetts, and ex-Treasury adviser Andrew Tyrie. It was obvious that neither had been forewarned they might be wanted at the prime minister's noon discussions with prospective parliamentary candidates.

As they made their excuses and left, delegates – who included CPS founder Sir Keith Joseph and assorted bankers – speculated whether the impromptu talks with candidates heralded a Major election campaign. After all, his success in the leadership contest was masterminded from the Westminster home of another aspirant Tory MP, Alan Duncan.

Fresh voice

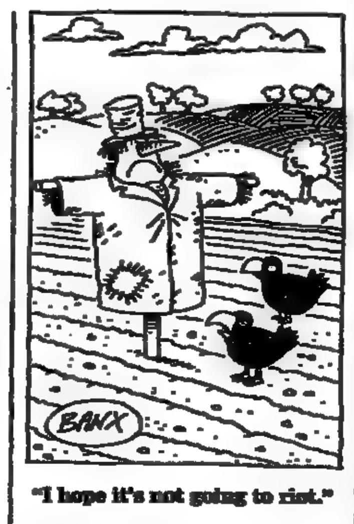
■ Sir Nigel Broackes, founder of Trafalgar House, let his chief executive Eric Parker face all the tricky questions at the group's annual press conference at its Ritz Hotel. He was grilled on everything from why the company had not cut its dividend to the size of the losses on its US housebuilding operation.

Broackes might have sat alongside the loyal chief executive to underscore his support for Parker in these troubled times. Instead he sat quietly in the audience.

By contrast, the latest trophy recruit to Sir Nigel's boardroom – David Howell, the 54-year-old Conservative MP – was far less taciturn when I contacted him yesterday.

As a former Secretary of State for Transport, as well as Energy, Howell has decidedly strong views about the present "appalling backlog" of capital spending on public infrastructure projects.

"I was advised there would be a transport crisis by the end of the 1980s and it is now self-evident", says Howell who lays the blame squarely on



"I hope it's not going to rist."

the Treasury.

However, he is confident that the recent change of leadership will help improve sentiment. "There is now much more chance of finding the right mixture between private enterprise and public projects."

This should be sweet music to the ears of Trafalgar House. Despite pioneering such moves as the private-sector financing of the new Dartford bridge, the group has not been as big a beneficiary of the Thatcher years as it may well have hoped.

Red warning

■ Newly appointed executives, national leaders and such wanting to ensure that it is not their blood that gets spilt on the carpet, might do well to have blood-tests made on close associates.

Reuter reports that Taiwan's state-run TV has just put out a list of the various haematological groups, and their typical personalities. They are:

Group O – confident, adventurous and independent; has a strong swashbuckling streak and is prone to stubbornness.

Group A – a procrastinator who is emotional and weak-willed but also prudent and analytical. Good listener.

Group B – gregarious, optimistic and creative but can often suddenly become excitable and unstable.

Group AB – considerate and giving, capable of intimacy and often with good economic sense, is also easily angered and emotionally treacherous.

Vatican polish

■ Cardinal Agostino Casaroli, who is retiring after 11 years at the top of the Vatican, is generally held to have been one of the most brilliant secretaries of state this century, if not *the* most brilliant.

Indeed, he discovered the present Pope when he was bishop of Cracow. As the Vatican's effective prime minister, Casaroli put forward the recommendation on which Mgr Wojtyla was raised to cardinal and thus became eligible for the papacy.

Subtle, but extremely tough, Casaroli is famed for his attention to detail and for his passion for "polishing" diplomatic texts. Now that he is stepping down, "others will learn how to polish by themselves", he said.

Fighting talk

■ Prime Minister Schlüter, Denmark's Conservative leader who has headed a series of minority coalition governments since 1982, is not underestimating his task next Wednesday when he fights his fourth general election.

At a Copenhagen seminar yesterday he was told by Sten Rasborg, chief of the Unibank group, that the programme he was putting forward should guarantee victory. "I'm convinced all thinking persons will vote for you," the bank chief added.

"But that's not enough," Poul Schlüter replied. "I need a majority."

Labour loses its biggest asset

Ivo Dawnay on whether the Labour party can adapt to the new political environment

Exasperation almost tangible: Gordon Brown, Neil Kinnock and John Smith

The exasperation within the British Labour party's inner circle is almost tangible.

Just days after the fall of Mrs Thatcher – for 15 years the party's arch-enemy – the reward has been a slump in its poll ratings and a fresh bout of largely groundless speculation over its own leader.

"Labour has had an outstanding period of regeneration and recovery under the leadership of Neil Kinnock which culminated in seeing off someone who is alleged to be the most formidably entrenched political leader this century," said Mr Jack Cunningham, the campaign co-ordinator, on Monday. "Where does all this nonsense come from?"

Rounding up the usual suspects is hardly tricky. A media pack "high" on the taste of one party leader's blood has been aided and abetted by the ever-restless Labour back benches, weary with disciplined opposition, and dispirited with the revival in the government's fortunes that has accompanied Mr John Major into Downing Street. Labour's long-held theory that Mrs Thatcher was its biggest asset has now been inverted to promote Mr Kinnock as the Conservatives' not-so-secret weapon.

Close aides to Labour's leader can barely conceal their anger at the speculation. They claim that it was their man's persistent battering at Tory divisions on Europe that helped bring about Mrs Thatcher's fall.

"People criticised Neil for his line of questioning after the Rome summit," said one close adviser. "But it was his questioning that brought out the wild response that was the catalyst for Thatcher's fall and (Sir Geoffrey) Howe's speech."

None the less, the question now is whether Labour and its leader can adapt to the unfamiliar political landscape they may or may not have contributed to creating. Even the most loyal Kinnockites concede that much now depends not on Labour, but on the altogether less-known qualities and strategies of Mr Major.

Mrs Thatcher's exit has allowed her successor to go at least some way towards forming up his tanks for an all out assault on the centre of British politics – the traditional battleground for general elections.

Mr Major's espousal of "caring Conservatism", his vow to create a classless "society of opportunity" and his general acceptance of the designation "dry on the economy, wet on social issues" is a gauntlet thrown down to Labour. After all, it has promised much the same – albeit under a "democratic socialist" label.

Labour's rethought strategy now must run along the lines of "better the carers you know, than the late converts." All the party's private opinion polling shows that it is unassailable by the Tories on this, its natural territory.

On such topics as the health service or education, pensions and benefits, Labour's own polling suggests it is safely ahead. On Britain's crumbling infrastructure and mounting revulsion at public squalor alongside private affluence, it also scores points.

Furthermore, the party believes its recent shift to a more positive stance towards Europe will help it outflank the Conservatives, now deeply split on the issue.

Yet is all this – the fruit of three years of arm-twisting and introverted policy debate – enough to produce the record swing needed to win the coming election? Even fierce Labour partisans believe the change in climate that has accompanied the departure of Mrs Thatcher may now mean that it is not.

The massive opinion poll swing that saw Labour's 15 per cent lead three weeks ago turned to an 11-point Tory advantage is discounted by both parties as part of the "honeymoon" effect. As Mr Robin Cook, Labour's health spokesman, memorably put it: "We must ensure that it is less of a honeymoon and more of a one-night stand."

Labour says that when the excitement dies down it will return to a firm voter base comprising some 40 per cent of the electorate. But Mr Kinnock's camp calculates that the crucial skirmishing now centres on a floating 8 per cent portion of the electorate.

It is this slice of voters – as yet politically and sociologically unidentified – that was the core of the sharp reversal in Labour's fortunes before and after the Tory leadership struggle.

Publicly, Labour is calling on the Tories to abandon the poll tax – the opposition's biggest vote-winner. Privately, it must be praying they do not

Close associates of the Labour leader always identified the public's lack of confidence in the party's economic competence as the prime reason behind its defeat in the 1987 election.

But it was also acknowledged that some voters' aversion to Mrs Thatcher herself had become a significant contributing factor to Labour's revived opinion poll ratings. Could the fickle 8 per cent thus be a measure of the "Thatcher factor" that Labour must now make up?

In any case, the party's strategists now believe that Labour's competence at managing the economy and the "image" of the Major administration are now the two questions that could spell electoral success or failure.

On the economy, it is Labour's word against the Tories' and few believe much more can be done. Ostensibly, the party should be sitting pretty. With inflation near 11 per cent, high interest rates and recession, the Tories have a lot of explaining to do.

Yet Labour is more than aware of the old saw that says the Tories always win on the economy, taking the credit when it is healthy, and promising a greater ability to manage a recovery when it is not.

Where the party is entirely in the dark is over Mr Major himself. And it is here that the "beauty contest" factor comes into electoral calculations. Labour is keen to characterise Mr Major as his former mistress's voice – "Son of handbag" in Mr Kinnock's unfortunate phrase – but it is equally anxious that he should live up to the insult.

Many are not so certain. "What is interesting about this man is we don't know what sort of target he is," Mr John Prescott, Labour's shadow transport secretary, reflected shortly after Mr Major's election.

Publicly, Labour is calling on the Tories to abandon the poll tax – the opposition's greatest vote-winner. Privately, it must be praying they do not. Publicly, it is urging government shifts on Europe, on education or on health. Privately, it must fear that such policy changes could be sold by Mr Major as evidence that he is "his own man". This is the novelty that threatens to undermine Mr Kinnock as yesterday's political flavour.

Until now, Labour's strategy was to confront the Tories directly in a battle over policies. It began this week with an education paper and is intended to continue well into the new year.

But inevitably, with a new face at the head of the Tory party, personalities are back under the microscope, prompting the fainthearts and malcontents on the opposition backbenches to resume muttering about the leadership.

Nobody at Westminster believes Mr Kinnock is currently under any real threat. Anyway, the prospect of a lengthy leadership contest involving a full-blown party conference this close to an election remains highly implausible.

Furthermore, it is not inconceivable that, notwithstanding criticisms of his recent performances against Mrs Thatcher, the Labour leader may get the better of his new, less experienced opponent at the despatch box.

If not, and if poor opinion polls continue well into next spring, every option could be thrown open – from a move towards supporting electoral reform to renewed talk of Mr John Smith or even Mr Gordon Brown, the shadow trade secretary, taking up the party's banner. What is indisputable is that Labour can no longer campaign as a haven for opponents of Thatcherism.

Senior party figures like Mr Bryan Gould, the environment spokesman, and Mr Roy Hattersley, the deputy leader, have long pressed for greater emphasis on Labour's "big idea" – an enabling state providing opportunity for all, in contrast to the Tories' meritocratic consumer democracy.

In the absence of Mrs Thatcher's long shadow, the Commons suddenly appears a surprisingly level playing field for the two young gladiators to fight on.

Commercially-motivated tied aid

Time to discipline a costly trade practice

By John Macomber

With dramatic free market reforms sweeping central Europe and many other parts of the world, it is time to take a fresh look at an ever more costly trade practice – the use of tied aid or mixed credits.

These are mixtures of commercial credits and government-supported "soft" loans or grants. All member nations of the Organisation for Economic Co-operation and Development would gain from a co-operative effort to reduce this trade-distorting and expensive practice. A reduction in tied aid would greatly reduce trade costs – something all industrial countries would appreciate as they face tighter budgets.

The United States supports the use of aid for humanitarian and development purposes, but not for purely profit-oriented capital projects that could be commercially financed.

Recipient country funds are diverted from basic needs to capital-intensive projects that may be lower in priority

Everyone loses in commercially-motivated tied aid. The buyer's price of doing business goes up because procurement is directed according to available credit rather than on the basis of the best price and technology. Recipient country funds are diverted from basic human needs and appropriate development projects to sophisticated, capital-intensive projects that may be far lower in national priority.

Inefficient suppliers are protected, reducing the global competitiveness of the donor country. And although exporters appear to win in the short term, the taxpayers in the exporting country pay the cost of government support for concessionary trade financing.

Moreover, tied aid has become increasingly costly because of the higher grant levels required in mixed credits under the OECD arrangement. Revisions to the arrangement implemented in 1988 raise the minimum grant element from 25 per cent to 35 per cent for most developing countries, and to 50 per cent for the least developed countries. At the same time, the calculation of the grant element was more closely linked to each donor country's domestic interest rates. Britain has felt the effects of this increase since tied aid accounts for an estimated 70 per cent of the country's bilateral aid budget.

Countries that do not use mixed credits in certain target markets are also on the losing end as long as commercially-motivated tied aid exists. American exporters lose an estimated $4bn (£2.07bn) a year in export revenues to tied aid deals by foreign competitors – the bulk of it in the Pacific basin.

With trade driving economic growth, American economic policies must focus sharply on US competitiveness abroad. As a result, the administration and Congress are using more aggressive tools to support US sales overseas in the face of government-backed exports. The Export-Import Bank of the United States, America's export credit agency, has at its disposal a "war chest" that has grown from $110m in fiscal 1991. The fund is being used in co-operation with the US Agency for International Development (AID) to launch a $500m joint programme offering mixed credits in four markets where they are most aggressively used by our competitors for commercial advantage: Indonesia, the Philippines, Thailand and Pakistan.

Eximbank and AID are establishing protocols in these four countries, each supporting $125m in US exports. The funding will combine Eximbank and AID grant money with Eximbank guarantees of commercial financing. The programme will finance projects in sectors heavily targeted by Japan and western European countries: telecommunications, transportation, power and construction equipment. All of the projects will meet strict economic and technical criteria, be of high development priority in the recipient countries and benefit both public and private sectors.

We anticipate operating the tied aid programme even more aggressively this year, given our beefed-up Eximbank 1991 budget with the war chest increased by nearly half. Congress has approved a sharp increase in AID funding authority for tied aid projects with Eximbank – from $6m last year to $300m in fiscal 1991. This stretches our US government grant capacity for mixed credits to as much as $500m which could be leveraged with Eximbank guarantees of commercial financing to support $1.3bn in US exports. The importance of the joint initiative lies not just in dollar export figures, however, but also in the administration's resolve to fight fire with fire, and to trim – if not end – this expensive practice.

The US will press for greater discipline on tied aid. We will be watching how our trade partners react to our initiatives

Backed by this muscle, the United States will press for greater discipline in the use of tied aid by other countries. We will be watching how our trading partners react to our mixed credit initiatives. We hope to find a solution through the negotiating process in the OECD talks which resume next week. However, should the talks not produce results, we will expand our tied aid capacities.

It is to everyone's benefit to deal quickly with this trade-distorting practice. Commercially-motivated mixed credits ultimately hurt everyone – buyers, recipient and exporting countries, all traders. It sabotages the trade liberalisation trend sweeping the developing world, at a time when trade is driving world economic growth. For these reasons, the issue will remain a top priority of the US government.

The author is chairman of the US Export-Import Bank.

LETTERS

Catch Thatcherite TV – every night, in prime time

From Mr Nigel Willmott.

Sir, Christopher Dunkley's proposition ("The Barbican survives the Thatcher years", November 28) that there has been no "Thatcherite" television should not be allowed to pass.

He passes off whole areas of programme-making, in one way or another centred around social problems, as bucking the consensus, while only allowing a very narrow criteria for a Thatcherite programme – a series expounding liberal economics.

If he wants to find "Thatcherite" television, he can catch it just about any night in prime time. To use his general criteria, whole swathes of television, by far the most watched, reflect the dominant values of the past 11 years.

What are game shows like The Price is Right and The Generation Game, with their "feel good" concentration on family and fun, allowing the working class on screen as long as they know their place? The light entertainment shows full of sexist and racist jokes and social stereotypes, which became the starting point for the rebellion of the alternative comedians? Chat shows with their cosy ego massaging and uncritical pandering to the wealthy and successful? Glitzy soaps like Dallas and Dynasty, which make real life power and ostentation look just like a style game?

What of much news coverage, which, being bound by rules of impartiality, takes its basic agenda from a woefully unbalanced press?

The enterprise culture has been represented in a rash of business programming, as well as dramas such as Howard's Way and The Brothers. But the only place in the media where trade union representatives were asked to comment on the new prime minister was in your pages. If there is any section of the community consistently ignored or ridiculed by television it is Britain's more that 8m union members. Ordinary working people probably have more to do with their shop steward or union official in dealing with day-to-day problems than with the police, social workers, doctors, vets or any other of the favourites for "social problem" dramas. Yet when has there been a drama series based on a trade unionist? How many sympathetic portrayals are there elsewhere?

It is no coincidence that the Broadcasting Act weakens provisions on broadcasters to carry current affairs, religious, children's and social action programmes, allowing commercial broadcasters like Sky an unrelenting diet of soaps, game shows, sitcoms, chat shows and movies.

The actions of the government over the past decade against broadcast journalists and dramatists, from orchestrated press attacks to outright prohibition, shows they know there has been an ideological war on the box even if Christopher Dunkley missed it.

Nigel Willmott,
38 Denton Road,
London N8 9NS

What about law?

From Mr Howard N. Meyer.

Sir, Absent from the draft resolution that will be presented to the UN Security Council is a "finding" – that is, a factual determination that their prior "measures (under) Article 41 would be inadequate or have proved to be inadequate" – as a needed predicate for the use of force.

US presidents are used to ignoring international law and binding treaties (the UN Charter being both); but success in getting a nation that respects law (Britain) or one that respects its own independence (France) to be complicit is hard to understand.

Howard N. Meyer,
375, West End Avenue,
New York

A poetic kind of justice

From JA Cunningham.

Sir, Shakespeare is up to the minute in his commentaries! At the Lyric Hammersmith this week we heard Hamlet – no doubt referring to Polly Peck's citrus fruit problems – remark: "How enterprises of great pith and moment ... turn awry." (Act III Scene 1). He then goes on to pose the ultimate question when he asks: "And how his audit stands; who knows save heaven?" (Act III Scene 3).

Has Asil Nadir read the denouement in Act V?

JA Cunningham,
Dorcas Farm,
Stoke Hammond,
Milton Keynes, MK17 9EA

London Docklands 'not a failure'

From Mr David Hardy.

Sir, I would like the opportunity to respond to the article ("A high-tech decade", November 26) which says London Docklands is a failure because it has a "completely inadequate infrastructure and a lack of any kind of urban design or plan".

First, Docklands is not a failure. It is the largest, fastest and most successful of all urban renewal projects in the world today. Some £8bn of private investment has poured into the area since the London Docklands Development Corporation (LDDC) was set up in 1981. Set this figure against a public spending of just £800m, and you are faced with a very real achievement.

Hundreds of businesses move into Docklands every year; 30,000 jobs have come to the area; 17,000 homes have been built; 11m square feet of commercial space has been completed; and unemployment has fallen. Local people are benefiting from the millions that are being spent on a comprehensive programme of community-based projects, including education and training schemes, to make sure that they are able to take up the opportunities that regeneration is bringing about.

A massive £3bn is being spent on transport and infrastructure to meet the demands that this success is placing on the area. Roads and railways are being built at a phenomenal rate, with many already in place. The Docklands transport network is getting better every day and will soon make the area the most accessible part of the capital.

Before criticising Docklands for a lack of urban design, one has to understand that the development of the area has always been market-led. The LDDC, charged with the task of attracting private investment, simply could not afford the luxury of turning away early development on purely aesthetic grounds. However, as confidence in the area has increased, Docklands has seen a second wave of regeneration with the emergence of better design, and many Docklands buildings, including the Financial Times printing works, now frequently win awards for their architectural excellence.

And of course there is a plan. The LDDC has well-defined plans for the continuing development of Docklands. Back in the early days, however, an overall plan would have been inappropriate. How could one have predicted and planned for the scale and speed of the development that has taken place here? How could one have imagined that an area, so long forgotten and idle, would be transformed, in only nine years, into a rapidly emerging international business and financial centre? There were a great many plans for the area before the LDDC – yet sadly very little action.

David Hardy,
chairman, LDDC,
Thames Quay, 91 Marsh Wall,
London E14

We need to fix terms and dates to curb the PM's power

From W. Grey.

Sir, JR Walker ("A time limit to work both ways", November 27) is quite right: it is the premier's power to dissolve parliament and call a general election at a moment of his or her choosing, which tilts the balance in his or her favour, at the cabinet's, parliament's and the people's expense, and which needs to be curbed.

Not only fixed-term parliaments (my preference is for four years rather than five) but also fixed-date general (like local) elections are therefore needed. Neither, *pace* Mr PJ Pace O'Shea ("Fixed terms for PM?" November 24), requires a written constitution, whatever the latter's merits on other grounds. Both are more pertinent, in the normal course of events, than fixed-term premierships.

W Grey,
12, Arden Road,
Finchley, N3

FINANCIAL TIMES
Wednesday December 5 1990

EC moves to curb post office monopolies

By Tim Dickson in Brussels

PLANS to curb the monopoly of national post offices are being finalised by the European Commission.

The draft proposals, which promise to open lucrative postal markets to private competition, are set out in a confidential paper due to be discussed by representatives of member states in Brussels today.

The proposals would endorse the right of governments to maintain exclusive letter and printed paper services. However, other key services would be freed to the private companies which proliferate in the mail market, significantly increasing consumer choice in these areas.

National post offices would be required to give up their regulatory functions, anti-competitive cross-subsidies by the monopoly operators would be curtailed and the system of charging between national postal administrations for delivering each other's mail, known as terminal dues, would be made to reflect costs.

Intense lobbying from all sides has marked the preparation of the Commission's discussion document, which was scheduled for publication in July 1989. Many in Brussels see liberalisation as not only desirable but inevitable in the wake of developments in the telecommunications sector.

Others worry that change may threaten the viability of a universal postal system.

If adopted by member states, the draft recommendations would pose a big challenge for the EC's 12 national post offices which have a total workforce of 1.25m people.

They would also create profitable opportunities for privately owned letter and parcel operators and result in more varied services for business users.

The draft paper concentrates on three main areas: general regulatory issues, obligations for postal administrations, and the need for harmonisation and cohesion between different parts of the Community.

One of the most sensitive issues is how the EC should set criteria for defining the so-called "reserved" services of letters and printed papers.

The suggestion is that this should be done by a combination of weight and price, with the weight criterion – currently ranging from 500g to 7kg depending on the member state – fixed at below 500g. The paper concludes that in defining the limits of a future universal service "the least restrictive option" should be chosen.

The "non-reserved area", where public and private operators would be able to compete under "minimal" regulations, would include parcels, express services, unaddressed items, self-delivery items and international "remail", which is the practice of sending bulk mail through post offices which offer the best rates. At one point, however, the report refers to remail as a "parasitic" practice.

Brussels outlines Soviet aid plan

By David Buchan in Brussels

THE European Commission yesterday sketched out to EC foreign ministers plans to help the Soviet Union with more than Ecu1bn ($1.3bn) in short-term food aid and a longer-term western effort to make the rouble convertible.

Mr Jacques Delors, the Commission president, said he had been told by Mr Yuli Kvitsinsky, a deputy Soviet foreign minister, here on Monday, that President Mikhail Gorbachev "now believes that one of the pillars (of perestroika) should be monetary reform, because that would be the only way of assuring relative monetary stability".

But Mr Delors made clear that the EC would let the International Monetary Fund take the lead in co-ordinating such macro-economic help. Preparation of the EC assistance package for the Soviet Union moved into high gear yesterday, after Mr Kvitsinsky's visit.

The Soviet minister handed Mr Delors on Monday night a list of some Rbs2.2bn worth of food, drugs and medical equipment which Moscow hopes western Europe will provide.

The Commission is now reworking its preliminary proposal for Ecu1.2bn in mixed loans and grants to finance EC shipments of food in the light of Mr Kvitsinsky's request for meat, butter, milk powder, cooking oil, children's food, and pasta. Such aid would be targeted at the neediest in the big cities, where shortages seem greatest.

Mr Kvitsinsky specifically said his country was not asking for cereals, which it evidently hopes to buy elsewhere. This is despite the fact that the EC has large grain stocks, and that Brussels estimates Soviet food import needs at Ecu3bn for next year, with wheat, barley, maize and soya accounting for most of this value.

Other elements of the package, which will be put to EC governments in time for their finance ministers to discuss them at a special meeting here next Monday and at the Rome summit on December 14, are:

- Removal of all quotas specifically directed at Soviet imports into the EC.
- Technical assistance, worth some Ecu400m next year and rising to Ecu600m in 1992, to improve transport, telecommunications, and food production, distribution and storage.
- Aid worth some Ecu50m to help the Soviets prospect for gas in the Barents Sea, improve gas liquefaction in the Yamal peninsula and around the Caspian, and rehabilitate ageing nuclear reactors.

With the current lack of clarity over the pace and efficacy of Soviet economic reform, Brussels is not proposing macro-economic aid.

By contrast, the Commission's proposal for a new $7bn financial safety net for eastern Europe will be on the table today when it convenes a meeting here of the Group of 24 western aid donors.

However, after a Monday night meeting between Mr Delors and Mr Michel Camdessus, IMF managing director, it is thought likely that the latter institution's preference for ad hoc operation will prevail, starting with a stabilisation fund to make the Czechoslovak koruna convertible next year.

EC food aid proposals are exciting concern among other traditional Soviet food suppliers, ranging from Hungary to New Zealand which are already owed money by Moscow. Community food stock managers would like to unload substantial quantities on the Soviet market, but unless this were done at near normal prices on near normal credit terms, it could sabotage chances for a a Gatt reform of farm trade.

EC security, Page 2; Gorbachev's plan, Page 2

Return of an uncertain climate

By John Barham in Buenos Aires

PRESIDENT Carlos Menem's swift decisive action in crushing Monday's mutiny by a group of extremist Argentine army officers was widely applauded yesterday.

Officials stressed that only a few hundred men, all from the army, participated. The armed forces, they claimed, remained overwhelmingly loyal as in previous three mutinies that have occurred here since 1987.

Nevertheless, the brief but bloody events, which came two days before today's visit of President George Bush, have damaged Mr Menem's efforts to demonstrate that the country was at last on the road to political stability.

Mr Menem's handling of this mutiny was in sharp contrast with that of former president Raúl Alfonsín who allowed previous rebel groups time to air their grievances. This should enhance his prestige. But he will now have to be even more wary of unrest inside the army coalescing with civilian discontent, creating the environment for political instability that plagued the previous Alfonsín government.

Perhaps of more immediate concern is the impact of the mutiny on Mr Menem's moves to introduce free market policies and to restore business confidence in Argentina. A western diplomat commented yesterday: "Until Monday you could talk about stability and a positive climate for investment in Argentina without a smirk or having people break out in laughter."

Retired Colonel Mohammed Ali Seineldín, the rebels' spiritual leader, and his fanatical right wing followers, have created a political constituency within the army by blending day to day concerns such as the high cost of living and low wages, with their own agenda.

Many enlisted men and non-

Menem denounces coup attempt: during the mutiny he warned army rebels that they could face the death penalty

commissioned officers waiting to go into action against the rebels on Monday told reporters that they viewed their officers as corrupt, politically motivated traitors who were cynically betraying military ideals.

In the words of one soldier, they want Col Seineldín made head of the army to thwart "a government plan to destroy the army, the repository of all patriotic values". They yearn for an Argentina purged of the left wing traitors and free of submission to foreigners: particularly the US and Britain.

The officers, however, show nothing but contempt for the rebels. Although Col Seineldín was decorated as a war hero after the 1982 Falklands war with Britain, a captain said "he is not a good soldier because he does not respect the chain of command or obey his superiors".

It is also significant that only officers were directly involved in suppressing the rebellion, probably fearing that the troops would not obey their orders.

Mr Menem will doubtless punish the rebel leaders as severely as the law permits. During the rebellion he warned that the ringleaders could face the death penalty. However, punishment alone will not stem the discontent. He will probably increase pay and military budgets, despite the government's delicate finances. Observers believe that Army commander Gen Martin Bonnet will be retired to be replaced by a tougher soldier in a partial concession to underlying sentiment in the army.

The soldiers, like ordinary Argentines, also demand action against corruption and improved living standards. The rebellion coincided with a rising wave of public anger over reports of corruption within the government which is widely believed to reach the highest levels. Mr Menem will find it less easy to deliver on these demands.

Prosperity requires investment, which itself can only come with stability and sound government policies. Mr Menem has made impressive advances in reforming the economy and reducing inflation.

But businessmen often comment in private that although they are heartened by the government's free market policies, they plan to wait, possibly for years, before risking new investments in Argentina.

Mr Arnaldo Musich, an Argentine business leader, suggested yesterday: "The uprising should not affect investment much because decisions are taken by carefully studying a country and looking at its profitability."

He added that the government's quick action, the solidity of democratic institutions, and its determination to continue with pro-business policies demonstrated Mr Menem's strength.

THE LEX COLUMN

A Fed carrot for the banks

It is more than four years since the US Federal Reserve cut its discount rate and nearly a year since US commercial banks last cut their prime rates. Nevertheless, the importance of yesterday's cut in the Fed's bank reserve requirements should not be underestimated. It is the clearest sign to date that the authorities are increasingly concerned that the US banking system is not playing its part in preventing the US sliding into deep recession.

The double digit dividend yields of most of the famous US money centre banks testifies to the stock market's understandable concern about the condition of US bank balance sheets. Rising bad debts and chronically weak profitability have meant that many banks are far more interested in shrinking the size of their balance sheets than expanding them. The Fed can ease as much as it likes. But if the banks are not passing on the benefits to their customers in the form of cheaper money, then it *is* self-defeating.

By boosting bank profitability, the Fed is hoping that it can kick-start the banking system back into life. The big unknown is whether there are the borrowers out there who still want to borrow. The more one thinks about it, the more last week's optimistic noises from the OECD about the US ability to avoid a recession seems to strike the wrong note.

UK companies

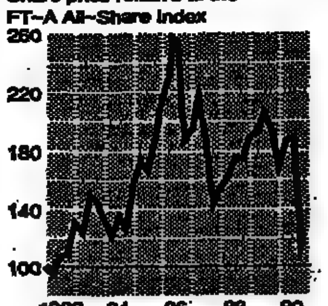
The problem of the UK corporate sector's financing deficit is getting worse. Yesterday's official figures for the liquidity ratio of large UK companies – broadly, cash or near-cash to short term debt – show the ratio at its lowest since the 1974-75 recession and half what it was three years ago. The remedy has been clear for some time now. Companies must cut down on capital expenditure, acquisitions and – perhaps most urgently – dividends.

The last is now finally happening, as demonstrated yesterday by GEC. BZW points out that the graph of the liquidity ratio over the past dozen years has fitted remarkably with that of dividend growth eighteen months later. On that basis dividend growth should have been collapsing since early 1989. In fact it was sustained until the middle of this year, when ICI held its interim payment.

As it happens, ICI has also given a public lead in cutting back its investment plans. The company has resumed the role of financial bellwether, as it did a decade ago in cutting its dividend. It is the more significant that ICI takes a more gloomy view of the length and depth of the recession than most of its peers. If that is right, cutting back capital expenditure would be a good way of reducing the impact on UK corporate earnings as a whole. Even by comparison with the last recession, the UK produces fewer of the things which companies invest in. If nothing else, an investment moratorium would do its bit for the balance of payments.

Siebe

Share price relative to the FT–A All–Share Index



GEC

GEC's failure to increase its dividend was the chief feature of an otherwise dour set of interim figures. This may reflect little more than the fact that it is becoming fashionable for members of GEC's peer group to keep their powder dry. But yesterday's results brought further confirmation, if any were needed, that Lord Weinstock's traditional reluctance to spend money has been largely vindicated by the results of his recent spending spree. Neither Plessey nor Ferranti is covering its financing costs. Shareholders would have been better off had the cash mountain stayed in the bank.

It remains difficult to see how the group will emerge from its strategic impasse and recover forward momentum. Interest incomes has suffered and the peace dividend seems to translate into slower growth in the real dividend and lower earnings per share. The brightest spots are GEC's strong order books and continued research spending. But the group has clearly signalled that the second half is showing precious few signs of a reduction in the relentless pressure on its businesses. It is the dullness of the outlook, rather than fear of a dividend cut, which leaves the shares on a running yield of 7 per cent.

Trafalgar House

So Trafalgar House has held its final dividend, even though it means taking £25m out of reserves. Its balance sheet does not look as bad as once feared, though one has to make one's own assumptions about the correctness of the £95m property writedown. Net borrowings and gearing are modestly down and even with the £154m of off-balance sheet loans, the £499m debt load is manageable given the group's cash flow and committed credit lines.

Given the history of this group it always was hard to imagine it cutting the payout, even though this would have allowed it to take better advantage of distress sales in the market it knows best, commercial property. But it is unlikely to raise its dividend much for a while either. Even without any more property write-offs, this year's profits are not going to be much different from last year's £155.7m. The only consolation is that falling interest rates increase the attractiveness of any paper yielding 13 per cent.

Siebe

The market reaction to Siebe's purchase of Foxboro has been so violent that it is tempting to see it as overdone. Despite the bounce in the past month, the shares have underperformed by nearly 40 per cent since the deal was announced in June. At yesterday's 305p they are on a prospective yield of 7.2 per cent, having just announced a 10 per cent increase in the interim dividend.

The good news is that the group's debt is conservatively structured, with interest likely to be covered more than four times in the second half against a covenanted requirement of only twice. More forbidding is the fact that at a net £584m the debt is more than twice net tangible assets and almost precisely equal to Siebe's market capitalisation. On a best case assumption that earnings will be flat this year and next with sharp recovery thereafter, the shares look cheap. But given the uncertainties, the greatest of which is the length and depth of the US recession, the market may be slow to see it that way.

Fed move cuts banks' costs, boosts credit

Continued from Page 1

Yesterday's relaxation releases reserves worth about $13.6bn.

These are assets on which banks have been earning no interest at the fed. At current interest rates, the move could increase gross bank earnings by up to $1bn, according to Mr Bob Giordano, chief economist at Goldman Sachs.

Mr David Hale, economist at Kemper Financial Services, described the move as a profit-boosting exercise for the banking industry.

It was a "band aid" which would need to be followed by "bandages if not open heart surgery".

Alan Friedman adds from New York: Bank stocks rose sharply on Wall Street in response to the Fed's move. At mid-session Citicorp's share price was marked $1 higher at $14 in heavy trading.

Mr Thomas Jones, Citicorp's senior executive in charge of finance, said: "The absolute numbers are not the important thing, but from a psychological point of view this will be an important development."

Major's Gulf visit will stress UK's resolute stance on Iraq

By Philip Stephens and Robert Mauthner in London

MR JOHN MAJOR, the British prime minister, is to visit the Gulf in the next few weeks to underline his government's unshakeable commitment to securing Iraq's withdrawal from Kuwait.

Mr Major, who yesterday met General Colin Powell, chairman of the US Joint Chiefs of Staff, indicated he would stick to the uncompromising stance adopted by Mrs Margaret Thatcher, his predecessor.

Mr Major's announcement coincided with an offer by the European Community to hold talks in Rome with Iraqi foreign minister Tariq Aziz after his meeting with US President George Bush in Washington, expected to take place shortly.

Mr Bush offered talks with Iraq after winning the support of the United Nations Security Council for a resolution authorising the use of force if Iraq had not withdrawn from Kuwait by January 15.

Mr Tariq Aziz's talks in Washington will be followed later this month or in early January by a visit to Baghdad by Mr James Baker, the US secretary of state.

Referring to the forthcoming US-Iraqi talks, Mr Major said in a speech to Conservative party activists in London that there could be "no question of negotiations, concessions, partial solutions or linkage to other issues".

Iraq had to withdraw from Kuwait totally and unconditionally, the legitimate government had to be restored and all hostages had to be released.

Mr Major said he backed the decision of Mr Bush to "travel the extra mile" to achieve a peaceful solution. But, following the latest security council resolution, the decision on whether force would be used now rested with President Saddam Hussein.

If he withdrew, "he need have no fear of attack". But if he did not, the international community would have to act to preserve the vital principle that aggression should not be rewarded.

Downing Street said no dates had been fixed for Mr Major's visit but indicated that it was likely to be during the parliamentary recess, which runs from December 22 to January 7. He is expected to meet the leaders of most of the front-line states in the region and to visit the British troops in Saudi Arabia.

Before that, Mr Major is to visit Washington for talks with Mr Bush which are also expected to centre on the Gulf crisis.

Mr Major's undertaking that Mr Saddam need not fear any attack from the US-led coalition of forces facing him in the Gulf echoes a statement made by Mr Baker last Sunday. "There was never any suggestion that force would be used if the UN resolutions are complied with," the US secretary of state said.

That position was endorsed last week by the five permanent members of the UN Security Council, after the adoption of the resolution allowing the use of force if Iraq had not withdrawn from Kuwait by a specific deadline.

Meanwhile, Iraq's ruling Revolution Command Council, chaired by Mr Saddam, tried to defuse its tense relations with Moscow by announcing that all 3,300 Soviet citizens kept against their will in Iraq since the invasion of Kuwait would be allowed to leave from today.

The Soviet Union last week voted for the security council resolution on the use of force and Mr Eduard Shevardnadze, its foreign minister, warned Iraq that Moscow would send troops to the region if Soviet citizens in Iraq were harmed.

French hit at Germans over budget policy

Continued from Page 1

This has hindered the Bank of France from lowering its own interest rates and has imposed increasing strain on other members of the European Monetary System by pushing the D-Mark to the top of its permitted range in the exchange rate mechanism and accentuating the rise of all European currencies against the US dollar.

French politicians have until now restrained their criticism of German policy makers in the belief that the question of raising taxes could not reasonably be aired until after last weekend's elections. Now that the election is over, they are looking for a swift commitment to lower the German public sector deficit.

Arguing for a rapid movement towards European monetary union, Mr de Larosière warned that the current European Monetary System, although it could be slightly improved on an operational level, was reaching the limits of its potential for developing monetary co-operation.

The commitment of the 12 member countries of the EC to combining freedom of capital movements with fixed exchange rates implied a need to move beyond harmonisation to a full integration of monetary policies, he said.

German growth, Page 3

WORLDWIDE WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	C	12	54	Berlin	C	5	41	Caracas	C	26	79	Faro	C	16	61	Islamabad	F	15	59
Algiers	F	15	59	Biarritz	Fg	1	34	Casablanca	F	23	73	Florence	C	7	45	Istanbul	R	8	46
Amsterdam	F	8	46	Bombay	S	33	91	Chicago	Sn	-5	23	Frankfurt	F	7	45	Jakarta	R	31	88
Athens	R	10	50	Bordeaux	Fg	3	37	Cologne	F	7	45	Geneva	C	2	36	Jersey	C	8	46
Bahrain	S	24	75	Boulogne	F	8	46	Copenhagen	S	5	41	Gibraltar	R	14	57	Johannesburg	F	23	73
Bangkok	F	29	84	Brussels	S	7	45	Corfu	C	13	55	Glasgow	F	9	48	Lima	F	22	72
Barcelona	S	12	54	Budapest	S	2	36	Dallas	S	-1	30	Helsinki	S	4	39	Lisbon	C	15	59
Beirut	–	–	–	Buenos Aires	F	25	77	Dublin	C	7	45	Hong Kong	S	20	68	London	S	8	46
Belfast	C	9	48	Cairo	S	22	72	Dubrovnik	S	15	59	Innsbruck	C	-1	30	Los Angeles	S	16	61
Belgrade	S	1	34	Cape Town	S	25	77	Edinburgh	F	8	46	Inverness	F	8	46	Luxembourg	Dr	5	41

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Madeira	S	20	68	Milan	S	4	39	Nicosia	F	19	66	Salzburg	Sn	0	32	Tenerife	F	22	72
Madrid	S	9	48	Montreal	Sn	-1	30	Oporto	F	13	55	San Francisco	S	4	39	Tokyo	S	15	59
Majorca	S	14	57	Moscow	C	3	37	Oslo	F	3	37	Seoul	C	7	45	Toronto	C	2	36
Malaga	Dr	16	61	Munich	Sn	0	32	Paris	C	7	45	Singapore	F	31	88	Tunis	C	12	54
Malta	R	10	50	Nairobi	–	–	–	Peking	S	9	48	Stockholm	S	3	37	Valencia	F	13	55
Manchester	Fg	5	41	Naples	C	8	46	Prague	C	2	36	Strasbourg	C	4	39	Venice	F	8	46
Manila	F	30	86	Nassau	C	27	81	Reykjavik	C	7	45	Sydney	S	24	75	Vienna	C	1	34
Melbourne	S	24	75	New Delhi	–	–	–	Rhodes	F	16	61	Taipei	–	–	–	Warsaw	R	4	39
Mexico City	C	20	68	New York	R	15	59	Rio de Janeiro	F	39	102	Tangier	C	14	57	Washington	R	12	54
Miami	F	23	73	Nice	S	13	55	Rome	S	11	52	Tel Aviv	S	22	72	Zurich	C	2	36

Temperatures at midday yesterday C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sunny Sl-Sleet Sn-Snow T-Thunder

FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

Royal Bank of Canada suffers 11% drop

Canada's biggest financial institution, Royal Bank of Canada, has suffered an 11 per cent drop in income as rising corporate and consumer loan losses took their toll. The bank's domestic business has been hit by an economy in fully-fledged recession, by continuing high interest rates and the impact of the high Canadian dollar on resource industries' export earnings. Bernard Simon reports on the results. Page 21

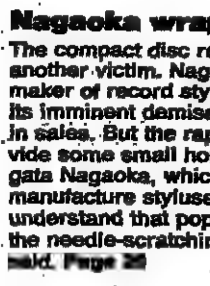
How to succeed in trading . . .

At the age of 29, Angelos Michalopoulos (left) is one of New York's most successful traders and earns more than $10m a year for himself. The secret of his success – he reads the newspapers a day late, does not watch TV, and surrounds himself with banks of computers showing price movements for 45 markets across the world. Deborah Hargreaves talks to Mr Michalopoulos as he prepares to move his operation to London. Page 23

Nagaoka wraps up loose ends

The compact disc revolution has claimed another victim. Nagaoka, a leading Japanese maker of record styluses, yesterday announced its imminent demise, prompted by a collapse in sales. But the rap music craze may yet provide some small hope for its subsidiary, Yamagata Nagaoka, which will continue to manufacture styluses to meet orders. "We understand that popular rap music relies on the needle-scratching method," the company said. Page 26

Trouble in storage



France is more dependent on nuclear energy than any other country in the world – but it has made less progress on finding deep waste storage sites than any other big nuclear producer. Last February, Prime Minister Michel Rocard (left) bowed to local pressure groups and halted geological surveys of four possible sites to allow for a rethink. This month, the whole issue is due to come to a head with the publication of the results. Page 27

Foseco shoots at moving target

"If they were trying to deliver a knock-out punch, they've missed the target." That, according to Tom Long, chairman of Foseco, sums up the revised bid by Burmah Castrol for his speciality chemicals and abrasives group. But analysts yesterday said the new offer would probably be enough to secure control of Foseco, unless the market advances significantly between now and the new closing date of December 21. Andrew Bolger reports. Page 24

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)				**Falls**			
Rises				Deere & Co	44½	–	1⅜
AEG	221	+	7	**PARIS (FFr)**			
Feldmuehle	500	+	40	**Rises**			
Leifheit	744	+	19	Audi D'ent	1185	+	85
Metallgesell	435	+	16.9	CGE	558	+	5
Falls				Eurotunnel	34.8	+	2.6
Daimler-Benz	580.2	–	8.3	Lafarge	345	+	7.2
Deutsche Bank	608.5	–	11.5	Saint-Gobain	395	+	5
Siemens	600	–	9	**TOKYO (Yen)**			
NEW YORK ($)				**Falls**			
Rises				Honshu Paper	2140	–	400
Chs Manhattan	11½	+	½	Iseki	550	–	100
Chemical Bank	12½	+	½	Itoman Co	485	–	45
Citicorp	14⅞	+	1½	Kawasaki Stl	373	–	26
J P Morgan	43⅞	+	1½	Kyocera Elec	1400	–	210
Sec Pacific	22⅞	+	1⅜	Toyama Chem	570	–	80

LONDON (Pence)				Ald Colloids	113	–	9
Rises				BTR	326	–	12
Colroy	178	+	23	Bass	995	–	11
Cranswick	73	+	10	Brent Walker	78	–	9
Edbro	88	+	10	Br Borneo New	40	–	20
Eurotunnel	343	+	25	Christies Int	164	–	17
Foseco	296	+	16	Eld'ge Pope A	97	–	5
Huntingdon	273	+	30	GEC	176½	–	8½
Leeds Group	188	+	10	Reed Exec.	29	–	6
Serif Cowells	43	+	17	WPP	97	–	21
Trafalgar Hse	188	+	14				
Falls							
Acal	11	–	2				

Deutsche Bank operating profit up 6%

By Katharine Campbell in Dusseldorf

DEUTSCHE BANK, the biggest bank in Germany, yesterday disclosed for the first time the full extent of its total operating profits, revealing a 6 per cent increase to DM4.13bn ($2.73bn) for the first 10 months of 1990.

But although total operating profits moved ahead, trading profits at the parent company level were hit badly by the crisis in the Gulf and its adverse effect on the stockmarkets, the bank said. Trading profits dipped 6 per cent for the 10 months to DM2.62bn.

Indicating the severity of the turnround in operating conditions since June, parent trading profits fell by 55 per cent after a 10 per cent improvement for the first half.

Write-downs of DM141m on equity holdings and DM34m on fixed-income securities were necessary, with an overall figure of DM240m for the group, Deutsche said.

By disclosing total operating profits, which take account of securities write-downs but exclude loan provisions, the bank aims to bring itself more in line with international accounting practice.

No comparable figure for 1989 was given, so that percentage changes still follow the German convention of 10/12ths comparisons.

Partial operating profits at parent level were 7.8 per cent higher than last October at DM2.35bn, whereas the group showed a 16.3 per cent increase to DM3.7bn.

Performance at group level was superior to that at the parent, thanks largely to earnings improvements in southern Europe, including Italy, together with the inclusion of profits from the newly-acquired Morgan Grenfell, the UK merchant bank (not quantified) and revenue from the new east German operation.

At the same time, the bank's recent rapid expansion has taken its toll.

Administration overheads climbed 21.2 per cent to DM6.6bn largely due to the construction of an east German network.

Deutsche, which will fold its east German joint venture into the parent bank, after assuming 100 per cent control (currently 84.7 per cent) by the end of the year, currently has 156 branches in the east, with a further 90 planned.

Indicating the pace at which Deutsche has grown in recent years, group business volume now amounts to DM401.8bn, DM52.9bn more than at the end of 1989.

In this year's increase, Morgan Grenfell accounts for around DM20bn and the new east German venture about DM15.8bn.

Higher interest income, at DM7.3bn for the group, up 15.6 per cent, was almost entirely due to this higher throughput of business with margins stable at 2.21 per cent.

Fee income grew 26.3 per cent to DM2.9bn, helped both by Morgan Grenfell and business in the east.

Decline at Deere worse than expected

By Karen Zagor in New York

DEERE, the world's largest maker of farm equipment, yesterday reported a 27.8 per cent fall in fourth-quarter net income on revenues which rose by 3.5 per cent.

Deere had warned that the declining economy and reduced consumer spending and construction activity might hurt its fourth-quarter earnings, but the results were worse than expected and its shares fell $2 to $44¼ at mid-day.

Mr Hans Becherer, Deere chairman and chief executive, said previously-announced temporary factory shut-downs would result in a 20 per cent decrease in production in the first quarter of 1991.

He added that strong price competition would hurt margins next year.

"As a result of these factors, operating income of our equipment operations is currently expected to decline significantly in 1991 compared with 1990," he added. "In the initial quarter of 1991, which is normally seasonally weak, we expect our equipment operations to incur an operating loss."

For the three months ended October 31, Deere had net earnings of $74.5m, or 98 cents a share, on revenues of $2.07bn, against $103.2m, or $1.37, on revenues of $2bn last year.

Mr Becherer attributed the lower net income to a sharp decline in production of lawn and ground care products and industrial equipment, reflecting the company's response to the soft economy in North America.

Net income from Deere's worldwide equipment operations, which exclude financial service subsidiaries, fell 40 per cent in the quarter to $39.8m from $66.4m the previous year.

Net earnings from Deere's credit, insurance and health care operations slipped 7.7 per cent to $33.7m from $36.5m in the 1989 fourth quarter.

For the whole of 1990, Deere turned in net income of $411.1m, or $5.42, up from $380.2m, or $5.06, a year ago.

Revenues grew to $7.88bn from $7.22bn.

The company's worldwide equipment operations had net income of $284m, up 14.5 per cent from $248m in 1989.

Mr Becherer said Deere would reduce company and dealer equipment inventories next year "by producing well below the level of anticipated retail sales", to address the problem of slower sales which resulted in high inventories for dealers at the end of 1990.

Can the numbers man keep the magic going?

David Owen looks at BTR's new top appointment

ALAN JACKSON was in London for a BTR board meeting two weeks ago on that fateful Saturday when Australia beat England at everything from rugby to netball.

"He was certainly enjoying himself," Christopher Bull, the industrial conglomerate's finance director, recalls. "With Alan, you quickly know if England are not doing well at cricket."

But sporting scores are just one facet of the BTR chief executive designate's reputation as "a numbers man". As managing director of BTR Nylex, the UK group's fast-growing Australian offshoot, he implemented a disciplined system of profit plans and carefully studied monthly operational reports.

A stout, bespectacled figure, he is also the antithesis of flash. "Alan is as far away from Donald Trump as you can possibly imagine. His motto would be 'success breeds success and not excess'," says one London-based analyst.

In both these respects, Mr Jackson, 54, is a chip off the old BTR block. After 13 years with the group, he is not expected to change significantly its tried and trusted formula. This, simply stated, is to lift margins at underperforming companies by cutting costs and raising prices. The formula helped to generate growth in real annual earnings per share of 18 per cent from 1979 to 1989; and it has been described by John Cahill, the retiring chief executive, as BTR's "magic dust".

But as economic downturn has become recession, the dust has lost some of its sparkle. Interim pre-tax profits unveiled in September were ahead just 6.6 per cent from £497m ($954m) to £530m. This contrasts with the group's performance between 1980 and 1982, when it hardly batted an eyelid as the economy weakened. Among the most persuasive arguments advanced to explain the current hiccup is that, to maintain growth, BTR needs a diet of underperforming acquisition targets.

After a decade of frenetic takeover activity in the principal Anglo-Saxon economies, suitable candidates are exceptionally thin on the ground. And when they have been located – as with Norton, the US abrasives and plastics group which BTR tried to buy earlier this year for $1.64bn – the group has been unable to secure a deal on acceptable terms.

Mr Jackson's track record would suggest that if anyone can locate and successfully pursue the type of takeover targets which are the essential grist to BTR's mill, he can.

This did not stop BTR's share price from slipping 12p yesterday to 326p. Institutional investors, however, said the movement should not be interpreted as a vote of no confidence. "When there's a change, one just pauses for breath to see if there is any difference in strategy," says Steve Weaver of the UK insurance group, Norwich Union.

Spurred by acquisitions, BTR Nylex was transformed in six years under Mr Jackson's tutelage from BTR Hopkins, a rubber products group with sales of A$115m (US$89m) in 1984, into Australia's largest industrial manufacturer. The offshoot now provides just under 40 per cent of BTR's overall earnings before interest and tax.

Mr Jackson's most important strategic move was the A$1.6bn acquisition of ACI International, a packaging and building products group, in 1988. This has been described as "an absolute peach of a deal" by analysts and as "the acquisition of the century" by Mr Jackson.

But the purchase was not an isolated occurrence. Since Mr Jackson's 1984 appointment to BTR's UK board, notable Asian acquisitions have proceeded at a rate of about one a year: for example, the Nylex plastics group in 1985, a cluster of Taiwanese chemical companies in 1986, Borg-Warner Australia in 1987, and Feltrax in 1989.

With the recession biting, it is generally assumed that Mr Jackson will have to kick his acquisitive heels for a spell. Indeed, BTR chairman Sir Owen Green emphasised earlier this week that these are "difficult times" for those with Mr Jackson's "expansionist" nature.

However, Mr Cahill reminded any who would listen in September that "difficult markets have historically created good acquisition opportunities for BTR". In similar vein, Mr Bull pronounced BTR's 49 per cent interim gearing level as "comfortable", with net debt unchanged at £1.26bn.

At the time, these remarks were largely lost in the stampede to sell the shares, which slid 40p on the day to 318p. But clearly BTR's preparedness to pounce should not be underestimated.

Mr Jackson's appointment, coupled with the unhappy Norton experience, has reinforced some views that when it comes, the next thrust will be in Asia.

"The Pacific basin is obviously the area of growth for BTR over the next 10 years," says a senior investment manager at one large insurance company. "It seems logical to me ... The next acquisition step has got to be seen to be successful."

SHARES of BTR Nylex, BTR's separately-quoted Australian affiliate, dropped 15 cents to $2.51 yesterday as investors realised the "Jackson factor" was about to be removed, writes Kevin Brown in Sydney.

Mr Alan Jackson (above) joined BTR Nylex as managing director in 1977, when the company's profits were A$217,000. Profits last year were A$569m on turnover of A$5bn.

The son of a farmer from Victoria, he studied accounting at night school while working for Kelly and Lewis, a British-owned Australian pump maker where he rose from clerk to managing director over 25 years. Later he studied at the Harvard Business School. "We Australians have serious inferiority complexes. What I found at Harvard was that I was as good as the rest of them," he said recently. Mr Jackson said last night he was excited about the "enormous opportunity" awaiting him, but at least part of his mind was still on the potential of the Asia/Pacific region. "I am . . . very much an Australian, and I am proud of what I have achieved here. Clearly I will still have a little say in what goes on at BTR Nylex. I will be a fairly active chairman," he said.

GEC falls 4% midway and fails to increase dividend

By Michael Skapinker in London

THE GENERAL Electric Company of the UK yesterday reported half-yearly pre-tax profits down 4 per cent to £342m ($667m) and failed to increase its dividend for the first time in living memory.

Lord Weinstock, managing director, said the outlook for the year as a whole depended on the performance of the world economy.

Operating profits rose 14 per cent to £287m in the six months to September 30. Group turnover totalled £4.4bn ($3.7bn). But pre-tax profits were pulled down by a fall in interest income to £49m (£95m), as a result of payments for the purchase of parts of the Plessey and Ferranti groups. The profits from the new businesses did not compensate for the loss of interest.

Earnings per share were 7.7p (8.6p) and interim dividend was maintained at 2.55p.

Lord Weinstock refused to commit himself on prospects for the rest of the year or to say what the final dividend would be. "We don't know how things are going to be in the second half or thereafter," he said. "No-one can look at the world economy today and be optimistic for the immediate future. We are not pessimistic. We take a neutral view. Let's see what happens." He said there would be further redundancies in the second half of the year, although he could not say how severe they would be.

Lord Weinstock: neutral view

During the first six months, the group reduced employee numbers by 6,400 to 167,000. Lord Weinstock said the redundancies had affected businesses previously owned by GEC as well as those acquired as a result of the Plessey and Ferranti takeovers.

Mr David Newlands, the finance director, said the weakness in the UK economy was expected to continue in the second half of the year.

Lord Weinstock said GEC's joint ventures with Compagnie Générale d'Electricité of France, Siemens of Germany and General Electric of the US provided it with some protection against an economic downturn.

"If there is a slump it will not occur uniformly around the world or even uniformly across Europe," he said.

Lex, Page 19

Giat studies armoured-vehicle project with Usinor Sacilor

By William Dawkins in Paris

GIAT Industries, the French arms group, and Usinor Sacilor, the steel producer, are studying a possible link-up between their armoured vehicle businesses.

The negotiations between the two state-owned companies comes at a time when Giat has been busy on the acquisition trail. Last week, it took over the bulk of the industrial operations of Fabrique Nationale Herstal, the near-bankrupt Belgian light arms producer and agreed to buy Heckler & Koch, the German producer of machine pistols.

Creusot Loire Industrie, a subsidiary of Usinor Sacilor, makes light armoured cars and gun turrets for tanks and warships. Giat makes tracked armoured vehicles of all tonnages, including the AMX 10 and France's Leclerc tank, plus turrets for guns of all calibres.

The talks are at an early stage, but Giat envisages co-operation in the manufacture of tracked armoured vehicles and tank turrets along the same lines as the arrangement that already exists in wheeled armoured vehicles between itself, the truck maker Renault Véhicules Industriels and Creusot Loire.

The takeover of Fabrique Nationale Herstal, which Giat expects to complete by the end of this year, will put the French group into the top flight of small arms makers and make it a world leader in hunting rifles.

The Fabrique Nationale assets being acquired will be structured into a new company to be called FN Nouvelle Herstal. Giat will inject the equivalent BFr2bn in working capital into the new company plus BFr800m to develop new guns.

INTERNATIONAL COMPANIES AND FINANCE

Stylus maker falls victim to CDs

By Emiko Terazono in Tokyo

NAGAOKA, a leading Japanese maker of record styluses, yesterday announced it is to be broken up next week.

Sales of styluses have collapsed so quickly since the big consumer electronics groups put their muscle into promoting compact disc players that Nagaoka has not had time to adjust.

In the Japanese market, CDs have soared from a 2.7 per cent share in 1984 to 69.3 per cent last year. Sales of records have tumbled to 3.6 per cent, and they cannot be found in most music shops.

Nagaoka's stylus sales have dropped from a peak of Y5bn in 1981 to Y700m in the year to September 30 1989, and all but about 2 per cent of its remaining sales are to overseas markets.

The company said that although it had foreseen the decline in sales, it had not predicted the speed with which CDs would gain ground. It attempted to diversify into the home video distribution business in the mid-1980s, but got in to that area too late.

It fell into loss last years and, after reporting a Y290m ($2.15m) pre-tax loss in the six months to March 31 1990, the directors decided the group had to be broken up.

Nagaoka stopped distributing styluses in September. Its formal dissolution will be announced at a stockholders' meeting on December 15.

Despite the havoc that has fallen on them, Nagaoka does not seem bitter. "We are sorry for all the trouble we are causing our customers," it said.

Nagaoka been hit harder by Japanese technological advances than other companies. Until the late 1970s, half its sales came from making parts for analogue watches. Then came Seiko's development of the digital watch which meant that, for a while, no one wanted hands on their watches.

In 1981, the company decided to back RCA's video disc technology, supplying the US group with pick-ups. But Pioneer produced a laser sensor video disc system, hitting RCA and, with it, Nagaoka.

However, Nagaoka's subsidiary, Yamagata Nagaoka, will continue to manufacture styluses to meet orders, mainly from overseas. "We still expect some demand from overseas, as compact discs are not yet that popular, and we understand that popular 'rap' music relies on the scratching method," the company said.

T. Boone Pickens: raider spurned by Koito

Pickens in revelation over Koito

By Stefan Wagstyl in Tokyo

MR T. Boone Pickens, the Texan corporate raider, has been forced by a change in Japanese law to reveal information about his controversial acquisition of a Y140bn ($1.04bn) stake in Koito Manufacturing, a Japanese car parts maker.

He has disclosed the money for the share purchase was borrowed from Mr Kitaro Watanabe, the Japanese raider from whom Boone, Mr Pickens' investment company, bought the 26.4 per cent stake.

The disclosure will hurt Mr Pickens' campaign to win board representation at Koito.

Koito spurned Mr Pickens on the grounds that he was not making a full disclosure about his holding and that Mr Watanabe's intentions were hostile. Before he sold his stake to Mr Pickens in March 1989, Mr Watanabe tried to persuade Toyota Motor, the car maker which has close links with Koito, to buy the stock at inflated prices.

A revision in Japan's Securities and Exchange Law, which came into effect on December 1, obliges holders of stakes of 5 per cent or more in listed companies to file details of their investments, including the sources of financing.

Sanwa Bank to seal Chinese joint venture

By Robert Thomson in Tokyo

SANWA BANK, the Japanese bank, will send a delegation to Peking today to polish an agreement for the first joint venture finance company involving foreign banks since the revolution in 1949.

The People's Bank of China, the central bank, has approved the venture involving Sanwa, the Bank of China, the state-run Bank of Communications, and the Hong Kong-based Bank of East Asia, which will each have a 25 per cent stake in the paid-up capital of $10m.

However, the Chinese central bank has derailed a second $10m joint venture involving the Bank of Tokyo, Société Générale of France, the Shanghai International Trust and Investment Corporation, and the state-run Construction Bank by refusing permission for the Japanese bank to participate.

The Bank of Tokyo said it has been punished for opening an office in Taiwan last August, as the People's Republic government is attempting to dissuade foreign banks from developing ties with the island.

The Japanese government was surprised by the decision, and is now encouraging Peking to see the bank as a financial link between the mainland and Taiwan. A senior Japanese banker said that Bank of Tokyo's exclusion "is very disappointing" and "shows that Taiwan is still a very sensitive political matter in Peking".

Foreign banks have had limited rights to open branches and establish joint ventures in the southern special economic zones, but the new joint venture company – to be called the Shanghai International Finance Company – is the first of its kind in China as a whole.

The company, likely to be established by next spring, is seen as a lead-up to the issuing of branch licences to foreign banks, which, Hong Kong institutions aside, have only been able to operate representative offices on the mainland.

Earlier this year, Shanghai leaders promised that branch licences would soon be issued for their city, but political debate over the matter in Peking is believed to have delayed approval.

Sanwa Bank says the new company will be permitted to deal only in hard currency, and will offer foreign loan services, buy and sell foreign securities, and provide consultancy.

NYSE chief to join the board at Merrill Lynch

By Patrick Harverson in New York

MR JOHN PHELAN, the outgoing chairman of the New York Stock Exchange, is to join the board of Merrill Lynch, the Wall Street securities house announced.

Mr Phelan, who announced his retirement from the NYSE in February, will join Merrill Lynch on January 1.

Mr William Schreyer, the group chairman, said that Mr Phelan's "extensive experience and expertise in the global financial markets will be an asset to our board".

Merrill Lynch has for long been the largest securities house in the US, with equity capital in 1989 worth $3.15bn.

Mr Phelan has been with the NYSE for 15 years, the last six-and-a-half as chairman and chief executive. He guided the exchange through the turbulent days of the stock market crash of October 1987 and the mini-crash of 1988.

He has also battled to protect the exchange's position as the leading market for trading shares in the face of opposition from electronic, screen-based markets and calls for an end to the auction-based system of dealing.

Mr Phelan sits on the boards of several US institutions, including Metropolitan Life Insurance and Eastman Kodak.

He is also a member of the President's Advisory Committee on Trade Policy and Negotiations, and is due to become president of the International Federation of Stock Exchanges.

Mr William Donaldson will become chairman of the NYSE.

First Pacific goes to main shareholder for funding

By Angus Foster in Hong Kong

FIRST PACIFIC Company, a marketing, financial services and telecommunications group listed in Hong Kong, is to raise US$100m over the next two years by issuing convertible participating certificates to one of the company's main shareholders.

The money raised will be used to strengthen First Pacific's capital base and for new investments. The company said the funding has been structured to provide cheaper financing than is presently available. Depressed equity markets, especially in Hong Kong where the company's shares are given a low rating, have prevented First Pacific from seeking new equity funding.

The certificates will be placed to the Salim family of Indonesia which currently holds about 26 per cent of the ordinary shares. Following full conversion of the certificates, which will take place after five years at the latest, the family's stake will almost certainly increase past 35 per cent.

That is the usual trigger point for a full bid under the Hong Kong takeover code. But the company has secured a waiver under the code, based on certain conditions, including the approval of the proposals at a special general meeting to be held later this month.

Anglo Chinese Corporate Finance is advising First Pacific on the issue. The Salim family has also elected to receive their dividends on the certificates in the form of scrip rather than cash.

● A new issue of shares in Yaohan International Caterers, the Hong Kong-based restaurant business of Japanese department store group Yaohan International, has been oversubscribed more than 24 times.

Following the issue, which is set to raise HK$90m, about 25 per cent of Yaohan International Caterers will be publicly owned with the remainder held by Yaohan International and senior management. Dealings are expected to start in Hong Kong next week.

INTERNATIONAL COMPANIES AND FINANCE

Siebe chairman to give up post of chief executive

By Charles Leadbeater, Industrial Editor, in London

MR BARRIE STEPHENS, the chairman of Siebe, the UK controls and specialised engineering group, plans to step down as its chief executive in the near future, amid mounting concern among institutional investors about the wisdom of executives combining both roles.

Mr Stephens, who joined Siebe in 1963 as its general manager, masterminded its dramatic growth in the past decade, taking it from a turnover of £44m in 1980 to £1.3bn ($2.49bn) last year.

His successor had been groomed for some time and plans were in hand to promote other executives to the board, Mr Stephens said yesterday, presenting the group's results for the first half of the year. He said it would not be too long before he became non-executive chairman.

Siebe's share price has fallen steeply since the $650m acquisition in July of Foxboro, the US industrial controls group, which tripled gearing to 103 per cent. Some of the group's institutional investors are concerned about the structure of its senior management and the lack of other executives on the board.

Siebe's pre-tax profits rose 5 per cent to £85m for the six months to September 30, on turnover up 8 per cent to £683m. Profits for the full year will be held back by slower growth in the US and the UK, which accounts for more than half Siebe's sales, and the weakness of the dollar which will reduce the sterling value of its US profits.

Details, Page 24

NCR reacts strongly to hostile bid from AT&T

By Alan Friedman in New York

NCR, the Ohio computer company that is the target of a $6bn hostile takeover offer from American Telephone & Telegraph (AT&T), yesterday reacted strongly to the unsolicited bid and said it was examining alternatives to a combination with AT&T.

Mr Charles Exley, chairman of NCR, accused AT&T of using "the pressure takeover tactics of the 1980s" and termed these "actions more suited to a corporate raider than a responsible corporate citizen".

In a strongly-worded letter to Mr Robert Allen, AT&T chairman, Mr Exley disputed what he called AT&T's "misleading characterisation" of events, adding that the history of mergers in the computer industry was a history of disasters.

"The acquisition of NCR by AT&T would only add to a list of failures," Mr Exley declared.

The NCR chief said AT&T's public announcement had caused disruption and had wiped more than $2bn in market value off AT&T even though it had produced a gain of $1.6bn in NCR's value on WallStreet.

"Your clearly hostile attack, your threats, your ultimatum and public pressure tactics can hardly be expected to create a feeling of confidence in AT&T on the part of NCR people," Mr Exley said.

In an interview with the Financial Times, Mr Exley repeated that he had received "expressions of interest" in NCR from other companies. These are understood to have come from both US and foreign companies.

Mr Exley conceded that Wall Street's conviction appears to be that NCR can run, but will not be able to hide from AT&T.

NCR's share price rose yesterday morning a further $2⅞ to $84⅝, bringing it closer to the $90 stock-for-stock AT&T offer.

AT&T yesterday said it hoped it can conclude "a friendly transaction" before its deadline for the $90 a share offer expires at the close of business today

If, as is expected, the board of NCR rejects the offer, AT&T is likely to consider a range of options, including a cash rather than paper offer, possibly in the form of a public tender.

Mr Exley said the NCR board would hold a telephone conference call this morning to decide on AT&T's offer.

He noted that NCR board members would be speaking on AT&T long-distance lines.

Trafalgar House profits down 42%

By Andrew Taylor, Construction Correspondent, in London

THE share price of Trafalgar House, the UK construction, property, shipping and hotels group, rose sharply yesterday as the stock market showed its relief that the company had not cut its final dividend, despite a 42 per cent fall in profits.

Pre-tax profits for the year to the end of September fell from £270.4m to £155.7m ($298m), following a £95m provision against falling residential and commercial property values in the UK and US.

The group's share price, despite the fall in profits, rose by 14p from 174p to close at 188p.

It is maintaining its final dividend at 9.6p making a total of 18.4p for the year – an increase of 5 per cent. It has transferred £25.4m from reserves to pay the dividend increase.

Mr Eric Parker, group chief executive, said: "We have taken a long-term view of our businesses. We have not been thrown off course by what we regard as a temporary recession in the UK and US."

Residential and commercial property profits fell by more than half from £170m to a five-year low of £77m during the previous 12 months.

Trafalgar said it sold 2,500 homes in the UK, compared with 3,400 the previous year.

Shipping and hotels profits were £3m higher at £61m, despite dipping slightly in the second half of the year as trading was affected by higher oil prices, a weaker dollar and fears of a Gulf war.

Construction and engineering profits, however, rose by almost a fifth from £57m to £68m.

The jewel in Trafalgar's crown is the John Brown engineering group. John Brown is benefiting from a sharp rise in offshore oil, gas and process plant orders, as well as being involved in an increasing number of large international transportation and infrastructure projects.

John Brown accounts for about £1.4bn of Trafalgar's record £2.5bn construction order book.

Group debt was £345m at the end of September and was equivalent to 42 per cent of shareholders' funds totalled more than £800m.

Gearing would rise, however, from 42 per cent to about 60 per cent if £150m of recourse and non-recourse off-balance sheet debt is taken into account.

Lex, Page 18; Norcros cuts dividend, Page 38

Royal Bank of Canada down 11%

By Bernard Simon in Toronto

ROYAL BANK of Canada, the country's biggest financial institution, suffered an 11 per cent fall in fiscal 1990 income before Third World loan-loss provisions. Rising corporate and consumer loan losses and tighter interest rate margins more than offset higher fee income.

Net income was C$964.9m (US$827.9m), or C$2.96 a share, in the year to October 31, against C$529.1m, or C$1.63, the previous year. The latter figure, however, included a C$1.1bn writedown of troubled Third World loans. No additions to these provisions were made this year.

Excluding the Third World reserves, loan-loss provisions jumped to C$420m from C$280m. The increase stemmed entirely from the bank's domestic business, which has suffered from an economy which is now in full recession, from continuing high interest rates and from the impact of the high Canadian dollar on resource industries' export earnings. Corporate loan losses rose by C$109m, and consumer loans by C$51m.

RBC said its non-performing loans, excluding LDC debt, more than doubled to C$1.36bn on October 31 from C$623m a year earlier. Almost half the year-on-year rise, or C$350m, is accounted for by loans to two companies – Kinburn Technology, a troubled Canadian high-tech and paperboard group, and to Finlay Forest Products of British Columbia. Non-performing residential mortgages rose by C$52m.

The results point to a marked deterioration in business in the latter part of the fiscal year as the Canadian economy weakened.

Although RBC enjoyed a 17.5 per cent return on common equity for the whole year, just short of its 18 per cent target, the return dropped to 13.8 per cent in the fourth quarter. Net income in the three months to October 31 was C$205.6m, or 61 cents a share.

Freeport plans shares buy-back

By Kenneth Gooding, Mining Correspondent, in London

FREEPORT-McMoRan, the New Orleans-based natural resources group, is to buy back $263.4m worth of its own shares – representing 13 per cent of its outstanding equity – from Fund America.

In contrast, another metals producer, Reynolds Metals, second-largest US aluminium group, says it might raise $250m of new debt.

Freeport will buy its shares at $34.75 each and initially pay for them by debt funding so it must first obtain approval for the deal from its bankers.

However, it said that proceeds from the sale of part of its oil and gas business will be used to pay for the share buy-back.

Reynolds has filed a shelf registration with the Securities and Exchange Commission to offer $250m of debt securities.

● Inco and Consolidated TVX Mining have changed the terms of the proposed merger of their gold interests so that Inco will hold 62 per cent of the new company instead of the 58 per cent anticipated when talks started in October. Consolidated TVX shareholders' stake will therefore be reduced from the anticipated 42 per cent to 38 per cent.

BHF held back by poor market

TOTAL operating profit at Berliner Handels-und Frankfurter Bank did not reach ten-twelfths of the 1989 results due to unfavourable market conditions, Reuter reports.

BHF gave no figures for operating profits, which include the bank's own-account trading, but said group partial operating profit rose 12.5 per cent to DM198m ($131m) in the first 10 months.

The bank's total operating profit, including own-account trading and write-downs on securities holdings, did not reach the proportional results of 1989, the bank said.

But BHF still expected to produce satisfactory results in 1990. A rise in interest and commission earnings in the first 10 months meant that earnings were based on "solid foundations".

BHF said group interest surplus rose to DM369m in the first 10 months, compared with a surplus of DM331m for ten-twelfths of 1989. Group commission surplus rose to DM202m from DM189m.

BHF said it still intended to increase business in eastern Germany in spite of last month's decision not to go ahead with plans to take a 54 per cent stake in the east German bank Deutsche Handelsbank. The plans were dropped after a review of the east German bank's activities, BHF said in November.

Alcatel links up with Aerospatiale

By William Dawkins

ALCATEL ESPACE, the space division of the French telecommunications company, and Aerospatiale, the state-owned aerospace group, have agreed to work together in the design, development and marketing of satellites.

This is the latest in a series of accords across the world satellite industry, but falls a long way short of the merger the partners envisaged when they started talks a year ago. Since then, Alcatel's relations with the French government have been clouded by its parent company's failed attempt to take control of Framatome, the semi-state-owned producer of nuclear reactors.

The pair finally abandoned a satellite merger last month, when they agreed on a different kind of co-operation, in which Alcatel, Aerospatiale and Selenia Spazio, the Italian aerospace group, are to take a joint 49 per cent stake in the satellite business of Loral, the US defence electronics group.

Under their new, slimmed-down accord, Alcatel and Aerospatiale will now make joint bids for contracts, co-ordinate their products so that they can be sold together and co-ordinate investments in foreign plant and marketing networks. It follows the pooling of the satellite business of Matra, the French aerospace and defence group with Marconi of the UK and coincides with the merger being discussed between the satellite businesses of Deutsche Aerospace and General Electric of the US.

The principle of yesterday's deal is that there is a match between Alcatel's experience in making satellite payloads and Aerospatiale's specialisation in making so-called platforms – the structures that carry satellites' working parts – and rockets.

American General receives two bids for insurance unit

By Nikki Tait in New York

AMERICAN GENERAL, the large US insurance and financial services group, said yesterday it had received two bids for its Home Service insurance division but that no buyer was interested in acquiring the entire group.

American General effectively put itself up for sale in May, hoping to attract a price tag of more than US$7bn for all its operations.

The move came after a bid battle and then a proxy battle with the much smaller Torchmark company. American General won, but said it was seeking a purchaser because it was "vulnerable to a possible acquisition at a discount price".

In September, following only limited interest, the Houston-based insurer said it would also consider restructuring itself, so that the Home Service insurance companies – which account for more than half the group's profits – were sold off. The remaining operations would form an on-going quoted company.

The company also set a deadline of December 3 for offers to be submitted.

American General declined to comment on the nature of bids. It added that there would be a board meeting on Thursday followed by a further statement.

Torchmark, which had previously stopped short of saying it would make an offer for Home Service, also refused to discuss whether it was among the bidders. "We believe they [American General] should announce who the bidders are when they feel comfortable," it said.

PWA seeks $175m aircraft leaseback deal

PWA, parent of Canadian Airlines International, is negotiating a US$175m forward sale-and-leaseback deal with a group of international banks, following problems with a US$650m equipment sale to the Soviet Union's Aeroflot, writes Robert Gibbens in Montreal.

Ten Airbus 310 aircraft were to have been sold to a leasing subsidiary of Lavalin of Montreal and then resold to Aeroflot. Deliveries were to extend to 1992, but Aeroflot could not find the hard currency.

Canadian Airlines was to have used the funds to repay debt. It now says it is trying to sell three of the aircraft to the banking group and to lease them back until 1992 when the Soviet deal might be cleared. In this way it would get about US$175m in cash immediately.

Berjaya plans shake-up centred on lottery unit

By Lim Siong Hoon in Kuala Lumpur

BERJAYA, a Malaysian conglomerate which expanded rapidly 18 months ago by a series of acquisitions, is to restructure its diversified holdings.

The shake-up centres on Sports Toto, its 57 per cent-owned lottery unit which will acquire from Berjaya 20 property and leisure companies for M$388m (US$143m) in cash and debt repayment.

Sports Toto itself has proposed an equity reorganisation, and will become a new investment holding group with interests in lotteries, tourism, leisure and property.

For this acquisition, and additional equity funding projects, Sports Toto is to issue a one-for-four bonus then raise M$546m (US$204m) through a M$342m rights and a M$204m new issue.

The changes will enlarge its share capital from M$56m to M$344m, giving it market capitalisation that ranks it in the country's 30 largest industrial groups.

Berjaya will still control Sports Toto, even though its stake will be diluted to 39 per cent, and it will remain the single largest shareholder.

For 1989-90, Berjaya reported a turnover of M$1bn, more than double the previous year, but earnings per share had fallen while short-term borrowings then stood at M$452m and long-term liabilities at nearly M$289m.

Over the past year, Berjaya has been divesting its extensive interests: it has floated its Singer unit, a marketing arm of Singer brand household products. This flotation raised M$86m.

Both Berjaya and Sports Toto are units of Industrial Pacific, controlled by Mr Vincent Tan.

AHP to reduce stake in Wyeth Laboratories of India

By Kunal Bose in Calcutta

AMERICAN Home Products (AHP), the US drugs and foods group, is to cut its 74 per cent holding in Wyeth Laboratories of India to 40 per cent.

The move is to avoid the provisions of the Indian Foreign Exchange Regulation Act, which restricts the expansion of companies with overseas equity holdings of more than 40 per cent.

AHP's holding in Wyeth will be diluted by making an equity offer to the Indian public.

This will allow Wyeth to take full advantage of the fast-growing drugs market in India.

After the divestment Wyeth will continue to have free access to AHP's steroid and hormone-making technologies and to to use AHP trademarks.

Wyeth, which pioneered the manufacture of steroids and hormones in India, is a leading producer of steroidal bulk drugs and the nation's largest manufacturer of oral contraceptives.

For the year to March 1990, Wyeth earned profits of nearly Rs20m on turnover of about Rs200m.

HK Realty climbs 4.6%

By Angus Foster in Hong Kong

HONG KONG Realty and Trust, part of the Hong Kong-based World International group founded by Sir Yue-kong Pao, yesterday announced profits before extraordinary items up 4.6 per cent to HK$158.4m (US$20.3m) in the six months to end-September.

The company, which is mainly involved in property investment, will pay an unchanged dividend of 10.5 cents per A share and 2.1 cents per B share.

The company said the weak state of the office property market in Hong Kong's business district of Central, where rents have been slipping, will affect its properties in the area but buildings in other parts of Hong Kong are expected to improve their contributions in the second half of the this financial year.

INTERNATIONAL CAPITAL MARKETS

Sanwa in US deal to form takeover boutique

By Martin Dickson in New York

SANWA, the large Japanese bank, is joining forces with Mr Michael Duval, a former senior executive at First Boston, the US investment bank, to form a New York-based takeover advisory boutique.

The deal is the latest investment by Japanese financial houses in Wall Street expertise, which have been at large US securities businesses and smaller boutiques.

The new investment bank, to be called Sanwa Duval, will strongly emphasise international deals and take the form of a partnership owned by the Japanese bank, Mr Duval and others. Sanwa, the world's fifth largest commercial bank, is committing $30m of capital to the venture, which will take on the merger and acquisition business currently carried out by Sanwa's merchant banking group in New York and Los Angeles. Initially it will have a staff of 15 to 20.

Mr Duval, who resigned from First Boston last July, was a member of the company's management committee and played a large role in negotiating its merger in 1988 with London-based Credit Suisse First Boston. He has also had experience of industry and government: he spent seven years in senior positions at Mead, the paper group, and six years in the White House in the early 1970s.

Mr Duval said that, unlike some rival firms, Sanwa Duval would not be forming a fund to make investments as a principal player, since it believed this could create conflicts of interest with clients.

He added that the new firm was a response to changes in the financial climate following the "buy-out frenzy" of the 1980s, when "investment bankers were more interested in shuffling assets than in strategic relationships". In the 1990s, the emphasis would be on building long-term relationships as companies carried out strategic deals on a global basis.

JP Morgan launches two indexes

By Stephen Fidler, Euromarkets Correspondent

J.P. MORGAN yesterday introduced two indexes for international investors: an international government bond index hedged against currency movements; and a cash index to monitor the relative returns on Eurocurrency deposits.

The monthly J.P. Morgan Currency-Hedged Government Bond Index will measure performance of 11 government bond markets hedged into 15 currencies using one and three-month forward currency contracts.

The J.P. Morgan Cash Index will cover Eurocurrency deposits in five maturities for 11 countries and will be reported in 15 currencies.

Morgan said the indexes were meant to round out its daily government bond index, which covers the performance of unhedged government bond markets and was introduced a year ago.

UK building society in £25m CP programme

By Simon London

STAFFORDSHIRE Building Society has signed a £25m commercial paper programme, arranged by National Westminster Capital Markets.

NatWest is also sole dealer on the programme, which allows the borrower to issue paper in maturities between seven and 364 days.

● Swiss Bank Corporation has arranged a Fl 500m commercial paper programme for Nederlanse Gasunie, the Dutch energy concern, allowing the issue of paper of maturities between two weeks and two years. Paper issued under the programme will be on a deep-discount basis.

The programme will not be rated, but Gasunie has a P1/A1-plus rating from the two main US credit-rating agencies for its existing dollar commercial paper programmes.

● The Government Insurance Office of New South Wales, Australia, yesterday signed a multi-currency Euro-commercial paper programme worth A$200m, AP-DJ reports from Sydney.

According to the arranger, ANZ McCaughan Securities (Asia), the notes are non-interest bearing in global or definitive form.

Definitive notes will be issued in denominations of A$250,000 or the equivalent in alternate currencies.

Treasuries rise on rumour of Iraqi Gulf peace plan

By Patrick Harverson in New York and Simon London in London

AN UNCONFIRMED report that Iraq had proposed a plan for pulling its troops out of Kuwait pushed bond prices higher in frantic late trading yesterday. Earlier, the Federal Reserve's unexpected decision to lower its reserve requirements on some bank deposits had helped bonds get off to a good start.

The benchmark 30-year Treasury issue finished half a point higher at 104⅞, yielding 8.320 per cent. Short-term bonds also made moved up, the two-year issue advancing ⅛ to 99⅝ to yield 7.443 per cent.

The morning announcement by the Fed that over the coming weeks it will reduce the reserve requirement on non-personal time deposits and net Eurocurrency liabilities from 3 per cent to zero – in effect, helping banks reduce the cost of funds and giving them more room to lower borrowing rates – provided the biggest boost to short-term rates. Three-

GOVERNMENT BONDS

month, six-month and one-year Treasury bills gained roughly 25 basis points on the news.

The Fed's decision to reduce reserve requirements – the first such change since 1983 – should not be regarded as an easing of monetary policy, said Mr Bob Brusca, bonds analyst at Nikko Securities. He believes yesterday's change will prove to be a substitute for the reserve add that the Fed would normally undertake during December, and thus will not represent a net injection of reserves into the system.

However, the Fed's actions, Brusca said, were seen by the market as "friendly". If Friday's employment data are as gloomy about the economy as predicted, then the authorities will come under strong pressure to loosen monetary conditions further.

■GERMAN government bonds moved lower yesterday, following indications that the Bundesbank may be prepared to see a rise in money market interest rates.

The downward trend was led by the futures market, where the March futures contract closed at 82.66 after opening at 83.05. Volume was a heavy 70,000 contracts.

In the cash market, the 8½ per cent 10-year Bund closed at 97.75 for a yield of 8.88 per cent, against 8.795 on Monday.

The Bundesbank yesterday announced that it would be returning to variable-rate repurchase operations, the mechanism by which it supplies liquidity to the money market. When the Lombard rate was raised to 8½ per cent last month, the Bundesbank said that it would maintain the repurchase rate at 8 per cent. Many in the market now expect money market interest rates to rise to about 9 per cent.

The Bundesbank also yesterday issued the first portion of a 8⅞ per cent 10-year Bund via a consortium of banks. The paper was priced at 100.70, to yield 8.77 per cent.

Today, the second half of the issue will be made by auction. Analysts are expecting the total size of the issue to amount to DM6bn. However, there are some doubts about the level of retail interest that the new bund will attract, given that the last bund issue carried a 9 per cent coupon.

The heavy volume of trading on the futures market was ascribed to the banks cautiously hedging their holdings of the new paper.

■JAPANESE government bonds were little changed in Tokyo trading, despite continued weakness of the yen on the foreign exchange markets.

The benchmark government bond issue No 119 closed in Tokyo on a yield of 7.34 per cent, against 7.32 per cent at Monday's close.

There was little reaction to the announcement of gross national product statistics, which showed a 4.1 per cent rate of growth year on year for the third quarter of the year, against 5.5 per cent for the second quarter.

The figures suggest that the government has little room for a cut in interest rates in the near future.

■UK government bonds closed slightly higher after a day of mixed trading, with the market lacking a clear direction and being led by the performance of sterling on the foreign exchange markets. Yesterday, sterling fell below DM2.90, and closed in London at DM2.895.

The benchmark 11¾ per cent gilt maturing 2003/2007 closed the day at 106⅞ for a yield of 10.75 per cent, after opening at 106⅝.

■YIELDS in all government bond markets, with the exception of Italy, edged downwards during November, according to the J.P. Morgan government bond index.

The biggest fall was seen in the Australian market, where government bonds gave a return of 3.78 per cent during the month, measured in local currency terms. Australian government bonds have given a return of more than 16 per cent in the year to date.

However, the UK gilts market also performed strongly, registering a 3.47 per cent return over the past month and an 8 per cent return in the past three moths – the highest of any government bond market over the period. In dollar terms, UK government bonds have given a return of 10.34 per cent in the last quarter.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		13.500	09/92	103-20	-	11.19	11.18	11.63
		9.000	03/00	90-08	+03/32	10.68	10.80	11.35
		9.000	10/08	88-31	+04/32	10.36	10.51	10.95
US TREASURY *		8.500	11/00	102-05	+10/32	8.17	8.33	8.54
		8.750	08/20	104-18	+11/32	8.33	8.50	8.67
JAPAN	No 119	4.800	06/99	88.7499	+0.230	7.32	7.41	7.74
	No 129	6.400	03/00	96.5396	+0.109	7.01	7.13	7.43
GERMANY		9.000	10/00	100.8000	-0.450	8.87	8.83	8.86
FRANCE	BTAN	9.000	11/95	95.7590	-0.218	10.12	10.12	10.16
	OAT	8.500	03/00	91.0100	-0.300	10.01	10.08	10.24
CANADA *		10.500	03/01	99.6000	-0.300	10.58	10.55	10.60
NETHERLANDS		9.250	11/00	100.8900	-0.320	9.11	9.08	9.15
AUSTRALIA		13.000	07/00	104.8994	-	12.10	12.28	13.28
BELGIUM		10.000	08/00	[illegible]	-0.250	9.73	9.74	9.86

London closing, *denotes New York closing session
Yields: Local market standard
Prices: US, UK in 32nds, others in decimal

Technical Data/ATLAS Price Sources

FT/AIBD INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on December 4

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield	OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABBEY NATIONAL 8 7/8 93	150	100¾	100⅞		8.65	COUNCIL EUROPE 7 94 LFr	600	93	94		9.62
ALBERTA PROVINCE 9 3/8 95	600	102⅝	103⅛		8.65	KREDIETCORP 7 93 LFr	1000	94½	95½	+⅛	9.39
AUSTRIA 8 1/2 00	400	97	97½	+⅛	8.99	WORLD BANK 8 96 LFr	1000	94	95	+⅛	9.45
BANK OF TOKYO 8 3/8 96	100	97	97½	+⅛	9.09	AMRO BANK 6 1/4 92 Fl	150	94½	95½		9.80
BELGIUM 9 1/8 92	400	101¼	101⅝	-⅛	8.31	RABOBANK 5 3/4 93 Fl	150	92¼	93		9.74
BFCE 7 3/4 97	150	95¼	95¾	+⅛	8.78	ALBERTA PROVINCE 10 92 C$	500	97½	98¼		11.42
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INTERNATIONAL CAPITAL MARKETS

How to earn $10m a year at 29

Deborah Hargreaves on a trader who changes his shirt four times a day

MANY traders in the world's fast-moving futures markets have their lucky charms to bring them good fortune. Some wear the most outrageous ties; others go through the same rituals before starting work.

Mr Angelos Michalopoulos, a New York trader, takes these routines one step further. He isolates himself from the rest of the world to give his trading system a chance.

He has no Reuters screen in his cabin-like office, but is faced with banks of computers showing price movements for 45 markets across the world. He reads the newspapers a day late and does not watch TV.

"I don't care about the fundamental reasons why the market is moving, but I want to know how it reacts to news," he says.

Mr Michalopoulos' system is working. At 29, he has become one of New York's most successful individual traders, and earns more than $10m a year for himself.

The impeccably-groomed and soft-spoken Mr Michalopoulos is the antithesis of the popular image of the loud, flashy futures trader who inhabits Chicago's seething trading pits. His trading method is purely cerebral and a far cry from the sweaty atmosphere of avarice that prevails in the pit.

Mr Michalopoulos is a Greek immigrant who went to the US to study. He became enthralled with the idea of financial success and made an exhaustive study of back copies of The Wall Street Journal to discover why businesses had failed in the past. "The thing they have in common is that they seem to believe they've found the Holy Grail. They stick to one market and one method. The only solution is to diversify into so many markets that a major fall in one or two cannot destroy your capital."

With this in mind, he has spread his trading across most of the world's futures markets, in which he trades anything from Treasury bonds to soya beans. He is now moving his operation to London.

"Futures was a US game, but now I think Europe will start to show its strength. In the US, the creation of new contracts has slowed down, but here it's just beginning to take off."

He began his trading career in 1984 when he moved into the Treasury bond futures market with $30,000. In the first year, he lost $23,000. After that, he began to make money. He came top in a recent US championship for young traders.

The trading system he uses is simple and similar to that used by many others. His success is based on the application of an iron will to remove emotion from decision-making.

"The problem with emotion is, when you're in a losing position and you start to sweat. You've got to have the mental elasticity to stick it out." Though admitting to the need to change his shirt four times a day, he prides himself on controlling his feelings. "If I don't control them I will lose."

Mr Michalopoulos works on recognising the trading patterns made by different futures contracts. He takes many short-term positions, often putting on as many as 60 to 70 trades a day. His concentration must be unerring over a 10 or 11-hour trading day.

He is initially moving his operation to London to keep his night-time trading, and plans to take on a couple of people who will be active in the oil futures and foreign exchange markets – continuing his trading strategy once the New York exchanges are closed. Later, he himself plans to trade in London and on other European exchanges.

Rush for Guinness debut issue

By Tracy Corrigan

UK BREWER Guinness plans to be an "occasional but regular issuer", according to Mr Ian Scott, director of treasury, following a successful debut in the Eurobond market yesterday. The company had previously brought three private placements, but no actively-traded public debt.

Guinness Finance's £150m five-year deal, arranged by Credit Suisse First Boston, was bought aggressively by UK fund managers eager to add this blue-chip name to their portfolios. The bonds yield 86 basis points more than the five-year UK gilt yield.

The issue is unswapped, but cost the equivalent of 45 basis points above the sterling London interbank offered rate, about five basis points more than Guinness would have had to pay for comparable bank financing, according to one banker. This deal laid a sound foundation to Guinness' strategy to establish a long-term presence in the market, dealers said.

The issue will refinance short-term bank debt. The bonds were rated Double A minus by Standard & Poor's and Double-A 2 by Moody's.

Ex-Im Bank $300m deal meets steady demand

By Euromarkets Staff

EXPORT-IMPORT Bank of Japan's $300m five-year issue, announced on Monday, met steady demand in Europe, but Japanese interest in dollar securities remains lacklustre.

The deal, arranged by IBJ International, was priced, as expected, at the wider end of the indicated spread range, at 48 basis points above the comparable US Treasury. The deal marks a gradual shift of attitude by Japanese government-guaranteed borrowers to suit the preferences of the market.

It is the second time such a borrower has brought a Eurobond using the fixed price reoffering method of syndication; it is also the largest issue launched by a Japan-guaranteed issuer so far.

The deal ended at 100.03 bid, just above the fixed reoffer price.

Two seven-year issues by supranational borrowers, one in lira and the other in pesetas, met poor receptions.

Demand for seven-year paper is limited among Italian investors. They were expected to buy a significant portion of both issues because of the tax concessions available on bonds from certain supranational borrowers. A L300bn issue for the World Bank, carrying a 12⅛ per cent coupon and a price of 101⅜, was considered too aggressive for a seven-year issue. The bonds were bid at 99.40, at a discount greater than fees. The maturity is not common in lira, although a couple of recent issues may have benefited from their novelty.

In pesetas, the European Investment Bank issued Pta20bn-worth of paper at a price of 101½ and with a 13.35 per cent coupon. The issue was bid just within fees but traders were unenthusiastic, judging the issue too aggressive.

Secondary market issues for similar maturities by the same borrower and by the World Bank were available at yields that were greater by 30 to 40 basis points, although there is always a premium in the Matador market on primary market issues where liquidity is higher. The Spanish treasury is currently limiting foreign bond issues to a limited number of eligible borrowers with a requirement for Spanish pesetas and which do not intend to swap the proceeds. The issue is expected to be the last in the currency this year.

The strong demand for recent Eurodollar equity warrant issues from Japanese companies has been blunted by the current weakness of the Tokyo stock market. The Nikkei stock market index fell by 863 points, or 3.8 per cent, overnight in Tokyo, adding to a 4 per cent fall during last week.

Of yesterday's Eurodollar warrant deals, the $400m four-year offering from Ohbayashi Corporation, lead managed by Nomura International, was the best performer. Launched at par, the deal traded up by ⅛ on the bid side, benefiting from liquidity of the larger deal.

However, smaller deals in the market yesterday from Nippon Synthetic Chemical and Nichiei, both via Yamaichi, and Nippon Soda via Nikko Securities all traded within fees. The heavy supply in the sector is scheduled to continue for the rest of this week, before easing off in the run-up to Christmas. Deals from Toppan Print and Tokyu Department stores are scheduled for launch today.

Four more deals are due before the end of this week, including a $400m offering from Mitsubishi Motors.

Société Nationale des Chemins de Fer Francais brought a FFr750m seven-year fungible issue. The total size of that deal is now FFr3.5bn, the largest issue in the market.

Nikko Securities launched a Y50bn five-year targeted transaction for Mitsubishi Motors.

● The Italian treasury said it was offering a second Ecu700m tranche of five-year certificates due September 26 1995, Reuter reports from Rome.

● GTE Corporation is offering $500m of 10-year notes yielding 9.445 per cent, Salomon Brothers said as lead manager. The issue was increased from $400m.

Priced at 99.55, the notes have a 9⅜ per cent coupon to yield 125 basis points over comparable Treasury securities. Goldman Sachs, Merrill Lynch Capital Markets and PaineWebber are co-managers.

INTERNATIONAL BONDS

Paris broker plans to lay off 74 of its 81 staff

FORMER independent Paris brokerage Gorgeu-Perquel-Krucker (GPK), taken over last month by Cholet-Dupont which is controlled by Crédit Lyonnais, plans to lay off 74 of its 81 staff, the company's employees' committee said, Reuter reports from Paris.

Paris brokerages have been under severe pressure recently, with independents particularly vulnerable to the ending of fixed commissions and increasing competition.

Tuffier-Ravier-Py, another independent brokerage, went bankrupt this summer and was taken over by Altus Finance, another Crédit Lyonnais unit, and Cogespar. There are four independents left.

● TONGYANG Securities of South Korea and Yama-Ichi Securities of Japan have agreed in principle to set up a joint-venture brokerage house in London early next year with a total capital of £20m, AP-DJ reports from Seoul.

Mitsubishi Corp in UK link

By Tracy Corrigan

MITSUBISHI Corporation, Japan's largest trading company, has become a limited partner of Phoenix Securities, the London-based corporate finance specialist. Under the agreement, signed yesterday, Mitsubishi is acquiring a 20 per cent interest in the firm through a capital injection. The amount is undisclosed.

The firms plan to co-operate in generating and executing corporate finance business between Japan and Europe. "Where we have clients with a Japanese connection we will go to Mitsubishi in Tokyo, on a preferred basis," says Mr Martin Smith of Phoenix.

For Phoenix, which has specialised in advising the financial services industry, the move provides "an opportunity to diversify into other areas of corporate finance", says Mr Smith. The European banking sector and the insurance market are targets for Phoenix, which will remain independent.

Both companies defy traditional classification in the corporate finance market, which has been dominated by large investment banks.

Phoenix, a corporate advisory business specialising in the financial sector, was set up in 1982 by Mr John Craven, who went on to become chairman of Morgan Grenfell. During the mid-1980s, the firm advised jobbers and stockbrokers, during the rash of acquisitions precipitated by Big Bang. In 1987, the firm was acquired by Morgan Grenfell although it continued to function as an independent business. Earlier this year, it was bought back by three senior partners, Mr Philip Seers, Mr Martin Smith and Mr David Reid Scott.

Mitsubishi, originally a trading company, has diversified into a broad range of industries and businesses, as well as creating its own financial services division and a corporate finance operation.

Not only is Mitsubishi free from the control of regulators, it also frequently acts as a co-investor, alongside its corporate finance clients.

Because of its position at the centre of a large group of companies, Mitsubishi has contact with more than 30,000 companies.

Although the pace of corporate activity is expected to slow, as the world economy enters recession, Japanese/European transactions are likely to become more important, believes Mr Osamu Ebihara of Mitsubishi.

As well as an injection of capital to acquire a 20 per cent interest in Phoenix, Mitsubishi is also providing £10m as the first step towards building a direct investment business. Phoenix, taking the view that the financial services industry is due for another period of adjustment and reorganisation, will be geared towards investing in restructurings such as small management buy-outs.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Ohbayashi Corp(a)#	400	(4⅞)	100	1994	2¼/1½	Nomura Int.
Exp-Imp.Bk Japan(a)◆	300	8½	100	1995	⅛/⅛	IBJ Int.
Nichiei Co.(a)#	150	(4⅞)	100	1994	2¼/1½	Yamaichi Int.
Nippon Syn.Chemical(a)#	100	(4⅞)	100	1994	2¼/1½	Yamaichi Int.
Nippon Soda Co.(a)#	90	(5¼)	100	1994	2¼/1½	Nikko Secs.
Towa Real Estate(b)#◆	100	4½	100	1994	2¼/1½	Nomura Int.
Sanshin Electronics(g)#◆	80	4⅞	100	1994	2¼/1½	Daiwa Europe
STERLING						
Guinness Fin.BV(a)◆	150	12	101.27	1996	1⅞/1.675	CSFB
FRENCH FRANCS						
SNCF(f)◆	750	9¼	97	1997	1⅞/1¼	CCF
LIRE						
World Bank(a)◆	300bn	12⅛	101⅜	1998	1⅞/1¼	Is.Bancario S'Paolo
PESETAS						
EIB(c)◆	20bn	13.35	101½	1997	1⅝/1	Banesto
YEN						
Mitsubishi Motors Corp(a)◆	50bn	7⅜	101.40	1995	1⅞/1¼	Nikko Secs.
Orix Ireland Fin.(e)†◆	20bn	(e)	101⅛	1995	1⅝/1⅜	Daiwa Europe
Union Bk Finland(a)◆	12bn	7.8	101.275	1993	1⅝/⅞	Mitsui Trust Int.
ESCUDOS						
EIB(a)◆	12.5bn	15¼	100¼	1995	-	Caixa Geral d'Depositos
D-MARKS						
Central Leasing(d)★★†◆	75	(d)	100	1995	30/15bp	WestLB
SWISS FRANCS						
Aiful Corp(a)★★◆	20	8¼	100	1995	-	Bque.Paribas (Suisse)
Ajikawa Ironworks(a)★★◆	10	8¼	100⅛	1995	-	DKB (Schweiz)

★★Private placement. §Convertible. #With equity warrants. †Floating rate note. ◆Final terms. a) Non-callable. b) Coupon was indicated at 4⅞%. Exercise premium fixed at 2.8%. Non-callable. c) Matador issue. Non-callable. d) Coupon pays 15bp over 6-month Libor. Non-callable. e) Fixed/FRN issue. Coupon pays 8¼% for first 3 years, then 6-month Libor +.15% thereafter. Put option at par on 19/3/93. f) Fungible with existing FFr2.75bn deal. Non-callable. g) Coupon was indicated at 5¼%. Exercise premium fixed at 2.53%. Non-callable.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

EQUITY GROUPS & SUB-SECTIONS — Figures in parentheses show number of stocks per section

	Tuesday December 4 1990							Mon Dec 3	Fri Nov 30	Thu Nov 29	Year ago (approx)
		Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at 25%)	Est. P/E Ratio (Net)	xd adj. 1990 to date	Index No.	Index No.	Index No.	Index No.
1	CAPITAL GOODS (196)	719.15	-0.9	14.89	6.64	8.22	34.18	726.02	722.77	718.10	891.25
2	Building Materials (26)	987.31	-0.3	14.70	6.19	8.37	41.09	990.02	994.59	985.47	1083.42
3	Contracting, Construction (34)	1148.69	-0.8	16.35	7.00	7.94	59.48	1157.42	1163.00	1159.44	1436.70
4	Electricals (10)	1878.62	-0.8	14.94	7.17	8.19	99.22	1893.87	1869.27	1877.26	2562.91
5	Electronics (26)	1550.74	-2.2	10.88	5.54	12.51	60.29	1585.64	1593.19	1578.20	1917.33
6	Engineering-Aerospace (8)	388.23	-0.4	17.27	6.28	6.94	17.27	389.63	387.49	389.76	0.00
7	Engineering-General (48)	363.48	+0.3	15.95	7.04	7.57	18.02	362.44	359.18	358.05	0.00
8	Metals and Metal Forming (8)	407.95	-0.1	22.28	8.42	5.54	24.83	408.54	405.43	401.85	462.90
9	Motors (13)	285.80	-0.8	17.47	8.42	6.67	17.45	288.13	281.89	282.28	366.65
10	Other Industrial Materials (23)	1239.98	-1.7	13.58	6.61	8.51	62.04	1261.16	1244.56	1230.38	1706.30
21	CONSUMER GROUP (178)	1213.12	......	10.13	4.24	12.27	35.49	1213.54	1205.37	1203.39	1302.14
22	Brewers and Distillers (22)	1527.40	-0.1	10.48	3.91	11.77	33.88	1529.40	1522.98	1526.85	1498.26
25	Food Manufacturing (19)	1012.63	+0.3	11.47	4.88	10.73	31.63	1009.67	1007.75	1011.42	1141.14
26	Food Retailing (16)	2272.78	+0.5	9.90	3.31	13.19	58.72	2261.23	2242.20	2235.69	2298.99
27	Health and Household (18)	2486.59	......	7.15	3.05	16.58	59.14	2487.75	2441.04	2433.54	2664.08
29	Leisure (32)	1232.96	+0.5	12.38	5.39	9.83	44.64	1227.01	1236.16	1232.60	1618.88
31	Packaging & Paper (12)	517.41	......	12.45	6.73	9.87	23.79	517.18	513.16	510.50	537.97
32	Publishing & Printing (13)	2969.13	-0.5	12.10	6.39	10.34	139.88	2985.52	2973.87	2970.16	3701.46
34	Stores (34)	806.53	-0.6	10.59	4.51	12.27	25.63	811.76	809.10	801.89	795.52
35	Textiles (12)	423.89	-0.2	13.74	8.38	9.34	26.32	424.93	421.48	428.43	518.47
40	OTHER GROUPS (105)	1001.65	-0.6	12.49	5.74	9.72	33.65	1008.09	998.30	989.44	1162.77
41	Agencies (14)	880.10	-1.0	12.13	3.81	9.99	23.93	888.82	880.14	888.96	1566.78
42	Chemicals (24)	1047.90	-1.0	12.94	6.44	9.12	50.79	1058.40	1044.00	1037.61	1214.30
43	Conglomerates (13)	1282.56	-1.3	12.99	7.80	9.29	41.19	1299.51	1289.55	1287.79	1679.14
44	Transport (15)	1860.76	+0.4	13.81	5.48	8.93	72.05	1852.83	1826.65	1824.39	2272.99
46	Telephone Networks (3)	1168.57	-0.6	11.44	4.32	11.36	26.09	1176.00	1168.27	1148.90	1138.41
47	Water (10)	2136.05	-0.8	13.58	6.34	8.34	68.12	2154.36	2123.64	2101.69	0.00
48	Miscellaneous (26)	1553.03	......	12.07	5.71	9.63	63.59	1552.89	1539.59	1514.68	1917.98
49	INDUSTRIAL GROUP (479)	1028.26	-0.4	11.90	5.23	10.32	35.60	1032.62	1025.22	1020.15	1169.58
51	Oil & Gas (21)	2337.01	-1.1	9.57	5.44	13.64	95.39	2363.74	2376.16	2371.42	2320.98
59	500 SHARE INDEX (500)	1135.57	-0.5	11.54	5.27	10.72	40.42	1141.66	1135.69	1130.60	1265.88
61	FINANCIAL GROUP (102)	720.08	-0.9	–	6.65	–	34.02	726.30	717.30	711.60	826.40
62	Banks (9)	762.34	-0.7	21.14	7.59	6.19	42.00	767.89	760.45	751.38	845.69
65	Insurance (Life) (7)	1304.00	-1.7	–	5.89	–	55.82	1326.78	1316.40	1303.16	1380.56
66	Insurance (Composite) (6)	629.67	-1.8	–	6.79	–	32.08	641.09	633.81	628.37	706.63
67	Insurance (Brokers) (8)	1008.23	+0.6	7.51	6.38	17.45	48.39	1002.50	973.49	967.40	1151.72
68	Merchant Banks (7)	360.00	+0.8	5.39	5.72	24.76	14.24	357.00	353.78	353.92	465.44
69	Property (44)	974.81	-0.5	7.44	5.05	18.18	30.55	979.64	959.31	957.52	1228.57
70	Other Financial (21)	248.69	+0.1	11.19	7.29	11.32	13.00	248.47	246.65	247.38	324.55
71	Investment Trusts (70)	1004.82	-0.6	–	4.02	–	28.74	1011.35	1002.98	1003.82	1275.90
91	Overseas Traders (5)	1208.13	+0.4	11.82	7.65	10.08	70.90	1202.85	1179.81	1180.81	1485.06
99	ALL-SHARE INDEX (677)	1032.81	-0.6	–	5.45	–	38.48	1038.80	1032.11	1027.16	1160.92

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Dec 3	Nov 30	Nov 29	Nov 28	Nov 27	Year ago
FT-SE 100 SHARE INDEX♦	2146.3	-16.4	2162.9	2142.0	2162.7	2149.4	2135.6	2144.3	2159.5	2327.5

♦Opening index 2156.6; 10 am 2160.9; 10 am 2157.7; 11 am 2161.9; Noon 2155.6; 1 pm 2150.1; 2 pm 2150.8; 2.30 pm 2148.9; 3 pm 2144.2; 3.30 pm 2145.1; 4 pm 2145.3. (a) 9.07am (b) 3.59pm † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 35p.

FIXED INTEREST

	PRICE INDICES	Tue Dec 4	Day's change %	Mon Dec 3	xd adj. today	xd adj. 1990 to date
	British Government					
1	Up to 5 years	120.01	+0.02	120.43	0.45	11.16
2	5-15 years	128.63	+0.09	128.52	–	11.95
3	Over 15 years	130.61	+0.14	130.43	–	10.78
4	Irredeemables	145.68	+0.02	145.65	–	13.70
5	All stocks	127.73	+0.07	127.81	0.16	11.72
	Index-Linked					
6	Up to 5 years	157.34	-0.25	157.75	–	3.04
7	Over 5 years	144.36	+0.05	144.29	–	3.45
8	All stocks	145.22	+0.03	145.18	–	3.42
9	Debentures & Loans	103.25	+0.19	103.05	–	11.14
10	Preference	73.78	+0.29	73.56	–	6.44

	AVERAGE GROSS REDEMPTION YIELDS		Tue Dec 4	Mon Dec 3	Year ago (approx.)
	British Government				
1	Low Coupons	5 years	9.54	9.52	10.36
2		15 years	10.22	10.20	9.89
3		25 years	10.27	10.29	9.80
4	Medium Coupons	5 years	10.73	10.71	11.37
5		15 years	10.51	10.49	10.29
6		25 years	10.48	10.50	9.92
7	High Coupons	5 years	10.85	10.83	11.51
8		15 years	10.80	10.82	10.50
9		25 years	10.67	10.69	10.07
10	Irredeemables		10.49	10.49	9.90
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs	4.00	3.86	3.64
12	Inflation rate 5%	Over 5 yrs	4.18	4.18	3.68
13	Inflation rate 10%	Up to 5yrs	2.75	2.60	2.79
14	Inflation rate 10%	Over 5 yrs	4.00	4.00	3.52
15	Debs & Loans	5 years	12.43	12.62	12.94
16		15 years	12.61	12.42	12.43
17		25 years	12.20	12.22	12.09
18	Preference		12.80	12.84	10.77

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	43	16	27
Corporations, Dominion and Foreign Bonds	4	4	13
Industrials	281	327	938
Financial and Properties	92	181	473
Oils	20	21	50
Plantations	1	0	9
Mines	28	51	74
Others	75	44	87
Totals	544	644	1,671

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

TRADITIONAL OPTIONS

● First Dealings Nov. 26
● Last Dealings Dec. 14
● Last Declarations March 7
● For settlement March 18

For rate indications see end of London Share Service

Calls in Berisford Intl., Bula Res., Glencor Expl. and Reuters. Puts in Reuters and T.J. Lovell.

LONDON TRADED OPTIONS

THE DERIVATIVE markets moved lower as worries about the health of the UK corporate sector came to the fore. Lower interim profits from GEC and reductions in brokers' profit estimates contributed to the softer tone, while concern about the Gulf continued to weigh on sentiment.

A number of programme trades in the equity market were hedged in the futures market, swelling turnover. There were also signs of investors rolling over from the December FT-SE contract, which expires at the end of the month, into March.

This was reflected in the spread between the December and March contracts, which widened by a point to 34. The strength of December's premium to the cash index continues to encourage investors to roll over their positions almost 3 weeks before December expires, analysts said.

December FT-SE closed at 2,171, down 25 points on the day. December's premium over the cash index narrowed to 25 points from 35, but compared with broker's fair value estimates of 18 points.

In the traded options market, turnover picked up slightly to 24,327 contracts. Dealing was weighted towards puts. In the FT-SE index, bearish dealing in the December 2,200 and 2,100 puts were a feature. The January 2,000 puts were also actively traded.

Among the stock options, British Gas was the busiest, after Mr James McKinnon, the director general of the Office of Gas Supply, warned that the company would have to give up a third of its industrial market to its competitors. Turnover was 1,875 contracts, with the December and March 240 puts particularly popular.

GEC, at 1,817 contracts traded, was next on the list after it announced lower interim profits and no increase in the dividend. The February 180 in-the-money puts were the most active.

Elsewhere, Trusthouse Forte traded 1,574 contracts, Boots 1,060.

[illegible]

UK COMPANY NEWS

Improved final offer of 300p per share considered 'way too low'

Foseco rejects £259m Burmah bid

By Andrew Bolger

FOSECO, the speciality chemicals and abrasives producer, yesterday rejected an increased and final offer worth £259m from Burmah Castrol, the lubricants, fuels and chemicals group.

The new bid of 300p per share compares with the original offer of 275p, which valued the group at £236.8m. Foseco said the bid still fell woefully short of recognising the underlying value of its unique worldwide business.

Burmah Castrol immediately went into the market and lifted its stake in Foseco by a further 6.15 per cent to 21.75 per cent, including acceptances representing 0.9 per cent it received at first close on Friday. Foseco shares closed 16p up at 296p.

Mr Lawrence Urquhart, chairman and chief executive of Burmah Castrol, said: "Foseco shareholders should remind themselves of Foseco's dismal record and insubstantial defence – Foseco has failed to justify its independence. Our increased offer is final and fully values Foseco."

Foseco said it was considering a number of proposals to enhance shareholder value, which would be increased shortly. Analysts said this might include a special dividend pay-out.

Mr Tom Long, Foseco chairman, said: "The increased price, like their opening shot, is way too low. If they were trying to deliver a knock-out punch, they've missed the target."

The latest offer represents an exit multiple of 11 times Foseco's forecast earnings per share of 27.1p in 1991. Burmah Castrol said the Foseco forecast included £4.2m of exceptional credits.

Stripping those out, the new offer would be 12.5 times forecast earnings. It said: "In the light of Foseco's poor performance, this is a generous multiple."

Analysts said the new offer would probably be enough to secure control of Foseco, unless the market advances significantly between now and the new closing date of Friday, December 21.

Shares in Burmah Castrol closed 6p higher at 477p, partly from relief in the market that it had increased its offer only by what was viewed as the minimum likely to be necessary to win control. There has also been speculation that the sharp fall in Burmah Castrol's share price this year made it vulnerable to a predator.

Burmah Castrol shares, which started the year at 693p, have slumped since the Gulf crisis began. More than 60 per cent of the group's trading profits come from the lubrication side, which purchases base oil on the open market.

A condition of the bid is that it may be lapsed if the price of Brent crude oil, currently about $30 a barrel, goes above $50.

Anglian Water on course to meet targets

By Clare Pearson

MR BERNARD Henderson, chairman of Anglian Water, assured investors that the company had stayed on course to meet its capital expenditure targets during the six months to end-September, when it made pre-tax profits of £84.4m.

The company has a £3.5bn 10-year capital programme. Mr Henderson said he expected it would spend about £225m this year, in line with its forecasts, while design work was well-advanced on next year's projects.

The 1989 pre-tax line of £28.5m is not comparable as it was struck before the water companies were floated on the stock market a year ago. Mr Chris Mellor, finance director, said on a pro forma basis the previous figure would have been about £70m.

The interim dividend is 5.8p which compares with 10.21p for the last full year. Earnings per share were 26.7p.

Turnover increased to £228.5m, 14.5 per cent higher than the actual 1989 result. The rise was chiefly due to charges which rose by 13.2 per cent, the maximum allowed for Anglian under the current water regulations.

Charges for the year from next April, which will be based on last month's retail price index, were likely to rise by about 15.5 per cent, Mr Mellor said.

"We are aware that these charges are high, but people will have to pay for the improvements in service and the environment they are seeking," he said.

Mr Henderson said Anglian had recently obtained AA long-term debt ratings from Moody's and Standard & Poor's, the two US credit rating agencies, "an excellent result."

There were no immediate plans to tap the international bond markets after Anglian's £100m index-linked issue in the domestic market in August.

● COMMENT

You might think a 13.6 per cent dividend increase could not look bad these days, but the dividend war among the water companies has taught the market to be greedy. Compared with the 15 per cent-plus half-year rises being paid by some of its peers, Anglian could only disappoint yesterday even though its pre-tax line well exceeded most market expectations. That said, Mr Henderson seems well aware of the threat of a crack-down on the industry if the regulator suspects consumers are suffering for the benefit of shareholders, so in this, as is his style in running the business, he is probably being sensibly prudent. Still, there seems no reason to buy the shares at the moment. Not only has the water sector enjoyed a strong run-up in anticipation of tomorrow's electricity float, Anglian is now looking expensive against the package of shares in the 10 companies on a prospective yield of just under 7 per cent. Forecasts for full-year pre-tax profits vary between £145m and £150m.

Serif decides quotation is a trivial pursuit

By Richard Gourlay

SERIF COWELLS, the toys and printing group which distributed Trivial Pursuit and Nintendo, the computer game, is set to leave the stock market via a buy-out by the management group which brought the company public in 1986.

The company said the buy-out team was talking to independent directors about purchasing the 10m shares which they did not already control at a price of 50p.

The management group led by Mr John Pryke, chief executive, already controls 59.4 per cent of the stock.

Mr Pryke said the group had been unable to use its stock market quotation to expand through acquisition or to raise cash since its launch at 160p. Mr Pryke said he will provide part of the finance for the buy-out.

Institutional shareholders are understood to have made it clear that they were seeking a way out for their investments. Serif's shares yesterday closed up 17p at 43p.

Mr Pryke said he was taking Serif private to allow it to pursue a longer term view of recovery which would not have been possible as a public company.

The company distributed Nintendo in the UK for a year but found the cost of financing stock too expensive.

Its rights to distribute Trivial Pursuit expired after five years in July this year since when it has been manufacturing the board game.

Slower growth and weak dollar limit Siebe's advance to 6%

By Charles Leadbeater, Industrial Editor

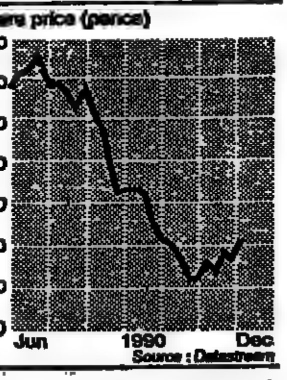
SLOWER GROWTH in the UK and the US and the weakness of the dollar, held Siebe, the controls and specialised engineering group, to a 5.6 per cent increase to £35.3m in pre-tax profits for the six months to September 30.

Siebe's position was also affected by the $656m acquisition in July of Foxboro, the US instruments and controls group. The deal, which pushed Siebe's gearing from about 35 per cent to 103 per cent, also led to a revaluation of the balance sheet with a £196m increase in intangible assets.

Turnover rose 3 per cent from £663.2m to £683.7m. Operating profits of £101m were 10 per cent higher, but the pre-tax rise was cut by an increase in interest charges from £9.4m to £16.1m. Net borrowings rose in the period from about £191m to £583m.

Siebe

Share price (pence)



Source: Datastream

Trevor Humphries

Barrie Stephens: planning to reduce gearing to between 50 and 60 per cent by 1993 without raising further equity

Mr Barrie Stephens, chairman and chief executive, said it planned to reduce gearing to between 50 per cent and 60 per cent by 1993 without raising further equity. A possible flotation of part of its US operations has been postponed.

About 55 per cent of sales are in the US and the UK, which are both suffering slower growth. Turnover in the Far East fell by about £2m to £74.7m with strong demand in Japan offset by the downturn in the Australian economy.

Turnover was reduced by £30m and pre-tax profits by about £7m by the weakness of the US dollar against sterling which affected the translation of dollar profits.

Mr Stephens revealed a revaluation of Foxboro's assets which has considerably strengthened the balance sheet.

Siebe's professional advisers found tangible assets, such as more than 55 acres of land next to its headquarters, which were unknown to Foxboro's senior executives. But the main contribution came from previously unrecorded intangible assets, largely patents, licenses and trade marks, worth almost £200m.

Siebe has embarked on an aggressive £70m restructuring programme which has already involved 1,600 redundancies. The moves include the closure of Foxboro's European manufacturing facilities which incurred a £14m loss last year, the consolidation of Foxboro's five manufacturing plants into three, the sale of its semi-conductor manufacturing plant, an increase in sub-contracting for components such as printed circuit boards and tighter controls on stocks and receivables.

£4.5m loss at Hawthorn Leslie

By Andrew Jack

PROVISIONS AGAINST its cellular communications division and expansion in France helped push Hawthorn Leslie Group, the USM-quoted electrical, consumer products and paper and packaging company, heavily into the red in the six months to June 30.

At the pre-tax level losses worked through at £4.49m and the interim dividend is being passed – 0.25p was paid previously.

The group also announced the sale of S K Fey, a subsidiary which makes printed cartons, in an attempt to reduce borrowings.

The losses contrasted with pre-tax profits of £2.62m in the corresponding period last year. Turnover rose to £83.08m (£63.31m).

Hawthorn disconnected 7,000 of its 70,000 subscribers who had not paid their bills. As a result it sacrificed £1.3m in connection bonuses. The group spent £1.4m on expanding its operations in France.

Interest charges rose to £2.77m (£1.09m). The loss per share was 2.38p (earnings of 0.88p).

Mr Remo Dipre, chairman, said the proceeds of the sale "will substantially reduce indebtedness at a time when the group has been hit by a number of one-off factors.

Allen, McGuire and Partners, a private investment company, is paying £8.5m cash for Fey, which reported pre-tax profits of £661,000 on turnover of £4.4m in the year to December 31.

UK sales rise helps Courts (Furnishers) to £3.65m

Increased retail furniture sales in the UK helped Courts (Furnishers) raise turnover by 6.6 per cent to £73.5m in the six months to September 29, against £68.92m a year ago.

However, there was a sharp rise in the transfer to deferred profit of £683,000 (£12,000 received) because of continued strong credit sales overseas. Although many overseas subsidiaries showed good growth in local currencies, the strength of the sterling negated almost all the improvement. Net interest payable fell to £2.82m (£3.06m) and taxable profit after interest and deferred profit rose by 17 per cent to £3.65m (£3.12m).

Tax, primarily overseas, took an estimated £1.05m (£750,000), and after minority interest of £287,000 (£416,000) earnings per share were 9.41p (7.95p).

The interim dividend is unchanged at 1.83p. Mr Paul Cohen, chairman, said UK turnover rose by 10.5 per cent in spite of the bleak trading climate. Capital expenditure was kept to a minimum and gearing, net of internally financed consumer credit business, was positive.

Turnover overseas would have have risen by 23 per cent on constant exchange rates, but because of strong sterling rose by less than 2 per cent to £30.5m.

Gloomy outlook as Compco plunges to £109,000

By Andrew Jack

PRE-TAX profits at Compco Holdings, the property investment and development group, plunged from £1.5m to £109,000 in the six months to September 25. The company also warned that prospects were not likely to improve in the second half.

There was no profit on property trading this time compared with £1.15m from the sale of industrial land in Kent.

Interest charges rose steeply to £475,000 (£182,000), reflecting a full share of joint venture costs undertaken during the last year.

"We anticipate that the outcome of the the second half of the financial year will not differ greatly from the first half results," said the company.

Earnings per share are 3.36p (46.77p).

Weinberg begins new job in investment management

By Richard Lapper

SIR MARK WEINBERG, the former chairman of Allied Dunbar, and a founder of unit-linked life insurance, yesterday assumed his new duties as full-time executive director of St James's Place Capital, the investment management and financial group.

The holding company was formed out of the de-merger of Rothschild Holdings four months ago.

Sir Mark's appointment, announced last week, comes amid signs that Sir Mark and Lord Rothschild, who are long-standing business associates, may be about to create a new financial services venture.

However, the company said that there is no master plan. "St James's will invest shareholders' funds in various projects, including financial services projects, that come our way. Opportunities may present themselves either with an existing company or with a start-up but there is no hurry."

Tubular Edgington at £550,000

Tubular Edgington, formerly Tubular Exhibition Group which acquired Black and Edgington in June 1989, reported pre-tax profits down from £842,000 to £550,000 for the year to July 31. At the operating level the profit of £1.83m showed a 60 per cent increase on the previous year.

Mr David Ewin, chairman, said the disappointing result reflected the general trading difficulties in 1989 and 1990 but pointed out that a trading loss of £975,000 at the half year was translated into a year end profit of £550,000.

Mr Ewin said that heavy investment in hire stock, carried a substantial depreciation charge.

In addition the high interest costs of £1.28m, compared with £476,000 in 1989, had materially affected profits.

Turnover last year jumped from £6.4m to £12.17m; tax took £70,000 (£227,000) leaving earnings of 0.7p (1.25p) and the board decided not to recommend a dividend.

Auditors stand down at Astra

By Richard Gourlay

STOY HAYWARD, the accounting firm, yesterday stepped down as auditors of Astra Holdings, the munitions group being investigated by the DTI and which nearly collapsed earlier this year after a disastrous acquisition in Belgium.

At Astra's extraordinary general meeting Stoy Hayward withdrew its name for re-election as auditors following criticism from shareholders at the AGM earlier this month over its involvement in the 1989 acquisition of Poudreries Reunies de Belgique, the munitions company.

"We carefully considered the matter and amicably agreed [with Astra] that our name would not go forward for re-election," Mr Dennis Robertson, a Stoy Hayward partner said.

Less than a year after the £22m acquisition, PRB collapsed and Astra had to make an £18m provision against the company's closure in its 1990 accounts.

Mr Roy Barber, Astra chairman, said Price Waterhouse had agreed to become auditors following Stoy's decision. He praised the way Stoy had worked with Astra since his appointment in March to complete a particularly difficult audit.

Stoy has been criticised for its audit of Polly Peck, the fruit and electronics group in the hands of administrators, and faced a further blow this month when Laventhol Horwath, the US accounting firm, filed for protection from its creditors under Chapter 11. Stoy is Laventhol Horwath's international affiliate in the UK.

Last month, Stoy took the unusual step of speaking out about its role as auditors to Polly Peck and Astra, saying that the firm was a victim of an "expectation gap" between what the public expected of auditors and their role in reality.

The criticism of Stoy in the Astra affair revolves around the 1989 accounts. According to Mr Barber, Astra was in breach of loan agreements on a £50m credit facility from the beginning of 1989.

Institutional investors said that when they were asked to approve a rights issue in July 1989 to fund the PRB takeover no mention of breaches in the loan covenants was made.

Stoy Hayward has said that at the time it signed off on the accounts, Astra had come to an agreement with its bankers which meant it would no longer be in breach of the loan agreement.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
Allied Colloids ......int	0.8	Feb 22	0.75	-	3.2
Anglian Water ......int	5.8	Mar 4	-	-	10.21
Atkins Bros ......int	3.8	Jan 18	3.5	-	12
Chiltern Radio ......fin	3.8	Feb 22	-	4.8	-
Courts (Furnish) ......int	1.83	Apr 12	1.83	-	5
Eldridge Pope § ......fin	2.35	-	2.35	4.1	4.1
Evans of Leeds ......int	1.18	Jan 4	1.125*	-	3.4*
General Electric ......int	2.55	Mar 30	2.55	-	9.25
Greene King ......int	3.3	Feb 8	2.9	-	9.8
In Shops ......int	0.66†	Jan 14	0.6	-	2.04
Leeds Group ......fin	6.25	Jan 23	5.8	9.25	8.5
Mansfield Brew ......int	3.6	-	3.4	-	11.3
Norcros ......int	3.5	Feb 11	5	-	16
Reed Executive ......int	0.6	Feb 4	0.6	-	1.2
Siebe ......int	5.5	Apr 1	5	-	15
Trafalgar House ......fin	9.6	Feb 15	9.6	18.4	17.6
Tub Edgington ......fin	nil	-	0.5	-	0.5

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Allen, Avesco, Caffyns, Cape, Caskey, Douglas (Robert M), Drummond, Fleming Intl High Inc Inv Trust, JLI, Northern Investors, Rowlinson Securities, Salvesen (Christian), Tams (John).

Finals- Avon Rubber, New Zealand Inv Trust, [illegible], Sage.

FUTURE DATES

Interims-
Brasway ...... Dec. 17
Clayhithe ...... Dec. 11
Creighton Naturally ...... Dec. 10
Crosby (James) ...... Dec. 6
Crown Eyeglass ...... Dec. 7
Eve ...... Dec. 13
Great Universal Stores ...... Dec. 6
Harris (Philip) ...... Dec. 14
MS Intl ...... Dec. 12
Microlec ...... Dec. 14
Sterling Publishing ...... Dec. 13
Tiphook ...... Dec. 6
Westpool Inv Trust ...... Dec. 18

Finals-
Airsprung Furniture ...... Dec. 10
Albion ...... Dec. 12
Hardanger Props ...... Dec. 10
Richards ...... Dec. 11
TMD Advertising ...... Dec. 10
TSB Bank Channel Islands ...... Dec. 12

UK COMPANY NEWS

Philip Rawstorne details the varying fortunes of a trio of regional brewers which reported yesterday

Core activities behind Greene King's 17% rise

GREENE KING, the East Anglian-based brewer, yesterday surpassed market expectations with pre-tax profits up 17 per cent from £9.41m to £11.02m for the six months to October 28.

Trading profits on turnover of £62.23m (£56.07m) were 35 per cent higher at £11.26m (£8.36m) and earnings per share grew by 18 per cent to 18.6p (15.7p).

The strong performance by the core brewing and pub retailing operations helped lift some of the gloom that has surrounded the company's ill-fated venture into the leisure business.

It yesterday wrote off £4m – from the £6m proceeds of its sale of a 25 per cent stake in Harp Lager – against its involvement in Big R Leisure, the roller skating and discos company, which went into receivership earlier this year. Analysts estimate the final cost could be two or three times that figure.

The interim dividend is increased by 14 per cent to 3.3p (2.9p).

Greene King's volume beer sales grew by more than 4 per cent, helped in part by the acquisition in July of 87 pubs from Allied-Lyons.

"We are continuing to gain market share both in our own heartland and our new trading area in the south-east," said Mr Simon Redman, chairman.

Development of a lager brewery at Biggleswade was completed in March and was now providing all the group's requirements for draught Harp lager.

Increased capital expenditure was reflected in higher interest charges, up from £480,000 to £1.8m.

Mr Redman said: "We expect conditions in the market to remain very competitive but we think we are well placed for continuing growth, driven by our strong and resilient ale brands."

● COMMENT

Some uncertainty still surrounds plans for the disposal of Big R's operations but the best estimate at present is that Greene King may finally have to write off a total £12m as the cost of its leisure involvement. But it now clearly has its eye back on what it does best: brewing and selling ale. Its strong trading performance during the first half, the result of a rapid and successful integration of 87 new pubs into its estate and the resilience of its ale brands, resulted in pre-tax profits some £1.5m above forecasts. Analysts are upgrading full-year forecasts from £21m to about £23m, with earnings per share pushing 39p, and a prospective p/e of 9.6. In spite of the Big R shadow, prospects are still bright.

Alan Harper

Simon Redman: enjoying an increase in market share

Mansfield Brewery ahead 5%

MANSFIELD BREWERY, the east Midlands and Humberside brewer, pushed first half pre-tax profits 5 per cent higher, from £4.3m to £4.5m.

Turnover for the six months to September 29 increased by 22 per cent to £54m (£44.6m) but operating profit, which rose 12.6 per cent to £6.7m (£5.9m), was held back by the poor performance of non-core activities. Operating profits on brewing and retailing increased by 17.5 per cent.

Earnings per share rose from 17.8p to 19.1p and the interim dividend is lifted from 3.4p to 3.6p.

Mr Geoffrey Kent, chairman, said that following a strategic review of plans for the 1990s, it had been decided to withdraw from the remaining peripheral activities.

Frampton Village Cider was sold to Bulmers in August and withdrawal from Bonanza restaurants and the Rainbow International carpet cleaning franchise had resulted in an extraordinary charge of £1.9m.

Draught beer sales had maintained market share in the company's trading area, with strong growth from Riding cask-conditioned bitter. Sales of lower margin packaged beers to multiple grocers and cash and carry outlets had doubled.

"The economic climate has clearly worsened since September," Mr Kent said, "and it would be incautious to expect that reduced consumer spending will not impact on sales during the coming six months."

'Hard lesson' leaves Eldridge Pope £2.4m in loss

ELDRIDGE POPE, the USM-quoted brewer, yesterday reported "a major setback" as problems with its hotel and computing interests resulted in attributable losses of more than £8m after extraordinary items.

At the pre-tax level, the Dorset-based group ran up a deficit of £2.4m for the year to September 29 1990, against profits of £3.06m, after taking into account £1.5m of trading losses from the Realstream computer business.

A loss of 11p per share compared with earnings of 11.3p last time.

An extraordinary charge of £5.8m, after profits from sales of pubs during the year, represented a £3m write-down of investments in Highcliff Hotel, Bournemouth; and of £3.5m on Realstream.

Mr Christopher Pope, chairman, said that the drain on resources from Highcliff and Realstream had been stemmed.

A 50 per cent holding in Highcliff had been sold to Vaux Group which was now managing the hotel.

Eldridge Pope's original investment in Highcliff had been written down by £3m to £1.6m; and now that the hotel was outside the group, borrowings had been reduced from £28.5m to £19m.

The investment in Realstream had been written off and the company would be disposed off early next year.

Mr Pope said: "We have learnt a hard lesson. Our strategy for the years ahead is to return to being a closely integrated group with an efficient quality brewery and an enlarged tied estate. We have every confidence in our ability to rebuild profitability."

The diversification problems had distracted management and resources from the core brewing and pub retailing business which had a disappointing year with trading profit down from £5.69m to £1.97m.

Beer sales in managed pubs had increased marginally but were down in the rest of the group's beer business, reflecting the effects of competitive discounting in the free trade. Acquisitions to the managed estate were now being considered as a means of rebuilding volume and restoring margins.

The final dividend is maintained at 2.35p, making a same-again 4.1p total.

Matthew Clark buys out JE Mather minorities in £12m deal

By Philip Rawstorne

MATTHEW CLARK, the UK's largest independent distributor of wines and spirits, is spending £12m on buying the minority interests, held by Bass, and IDV, the Grand Metropolitan subsidiary, in JE Mather, its Stone's ginger wine and sherry company.

Mr Peter Aikens, Clark's chief executive, said yesterday: "The acquisition reflects our strategy of developing the group principally as a producer of drinks and of extending its portfolio of owned and agency brands."

JE Mather, based in Leeds, made pre-tax profits of £5m on turnover of £34m in the year to April 30 1990. Net assets totalled £10.6m, including £1.9m cash.

Some 80 per cent of Mather's turnover comes from sales of British sherry and Stone's ginger wine. It owns Old England, the leading branded British Sherry, and has a strong presence in the own-label sherry market. Stone's ginger wine accounts for over 70 per cent of the UK's branded ginger wine market.

Clark's move to gain full control of the company marks a further step in the refocusing of the group's business since the double blow last year of losing the Martell and Irish Distillers agencies. It has since gained new agency business from Domecq sherries, Fundador brandy, Grand Marnier liqueurs and others.

Mr Aikens said that the group would now have greater freedom to acquire additional drinks brands for production at Mather's facilities in Leeds where volumes could be increased substantially with minimal investment.

Acquisition of new brands had been constrained by the partnership with Bass and IDV because of possible competition with their own products.

Subject to shareholders' approval, Clark will pay £12m cash for the 48 per cent stake in Mather owned by Bass and IDV. Deferred payments of £2.86m may also become due in 1994, depending on the amount of Mather's products bought by Bass and IDV over the next three years.

Bass and IDV last year accounted for 18 per cent of Mather's turnover.

Clark will finance the acquisition by a five year bank loan of £8m and out of existing cash resources. Gearing is expected to rise to 25 per cent but should fall to about 15 per cent by next April.

Allied Colloids hit by lower margins

By Clive Cookson

ALLIED COLLOIDS, the specialist chemicals group, raised pre-tax profits by just 1 per cent to £19.4m in the six months to September 29, on turnover ahead 9 per cent at £113m.

The flat outcome disappointed the market and the shares closed 9p down at 113p.

The Bradford-based company said margins were reduced by "considerable revenue investment in our new systems for production, stock control and forecasting together with commissioning cost relating to the additional facilities installed in our US plant."

Start-up costs for the plant in Suffolk, Virginia, were greater than expected, according to Mr Gordon Senior, finance director. "We've had one or two problems we did not anticipate," he said. But the plant was now running satisfactorily at about 50 per cent of capacity.

"Although current market indicators still support our expectation of continuing growth in sales and profits in the second half of our financial year, any forecast at this time must also express some caution having regard to the increasingly adverse international economic outlook."

Specialist chemicals companies such as Allied Colloids are generally far less vulnerable to an economic downturn than the giants such as ICI, but they are not immune.

"We sell very broadly, in a lot of different industries and in many countries," Mr Senior said. "If there is a world recession it will affect us to some degree."

Allied Colloids has been squeezed by the rising cost of its oil-based raw materials since the Gulf crisis.

Earnings per share rose marginally to 4.63p (4.61p). The interim dividend is raised to 0.8p (0.75p).

● COMMENT

The long-standing premium of Allied Colloids shares compared to the market has almost disappeared during the course of this year and more results like these will do nothing to bring it back. Pre-tax profits for 1990-91 will probably be close to last year's £41.3m, giving a p/e of about 11. Even if sales and operating margins pick up in 1991-92, profits then are likely to be hit hard by adverse currency movements – the company has fully hedged this year but no hedging is in place for the following year. However, long-term prospects look excellent: the company's green activities, making chemicals for pollution control and paper recycling, account for about a quarter of current turnover and will receive increasing attention from investors. But the shares are likely to languish for a while, unless the specialty chemicals sector sees another take-over battle like Foseco-Burmah Castrol.

Reed Executive falls 35%

By Jane Fuller

REED EXECUTIVE, the family-controlled employment agency, saw pre-tax profits slide by 35 per cent in the six months to September 28.

The taxable figure fell to £2.55m (£3.91m) on turnover of £68.05m (£70.29m). An inflow of cash helped to produce net interest income of £129,000 (£21,000).

Mr Alex Reed, chairman, said the company had been hit by a decline in the number of vacancies and job candidates. He warned that the second half seemed likely to be even worse than the first. "Shareholders should not expect any improvement in the short term."

The company, which has 200 branches, mainly in the south-east, focuses on placing office staff and accountants. Mr Reed said the business climate had been particularly bad in the City of London. "People are staying put rather than changing jobs."

Earnings per share fell to 2.6p (4.7p). The interim dividend is held at 0.6p.

In the year to March 31, Reed saw pre-tax profit fall by 43 per cent to £5.1m and cut its final dividend.

The share price shed a further 6p to close at 29p yesterday, compared with a high for the year of 103p.

Norcros down 47% as building slump bites

By Jane Fuller

THE SLUMP in construction has taken its toll on Norcros, the building materials and print and packaging group, which saw pre-tax profit fall by 47 per cent to less than £10m in the six months to September 30.

After maintaining its barely covered dividend last year, the group has cut the interim payment from 5p to 3.5p.

Taxable profit fell to £9.77m from £18.32m, itself 37 per cent down on the first half of 1988-89. Turnover declined to £219.58m (£229.9m) and operating profit to £13.84m (£17.75m).

Interest, which showed a surplus of £570,000 last time, accumulated a payment of £4.07m. Gearing rose from about 47 per cent at the year-end to 70 per cent in September and was expected to stay close to that level for the rest of the year.

Mr Michael Doberty, deputy chairman and chief executive, said debt had built up as the group spent more than £100m over two years on restructuring and capital projects, such as a new factory for Crittall Windows to replace two old ones.

Of this total, about £40m was attributable to redundancies and relocation: 2,500 jobs were being shed, 23 per cent of the workforce.

In the building downturn, the hardest hit subsidiary had been Crosby-Sarek, where three window and door making businesses were being merged and the number of sites coming down from eight to five.

This formed part of the building products division, which saw operating profit fall to £9.01m (£11.58m) on sales of £98.57m (£94.58m). Better performers included Triton showers and Crosby Kitchens.

A longer standing reorganisation, involving an exceptional provision of £26m in last year's accounts, was going on in ceramics, where profit plummeted to £2.43m (£5.43m) on sales of £60.51m (£63.6m). Business had also turned down in South Africa and Australia.

Printing and packaging would have increased profit, said Mr Robert Alcock, finance director, except for the £800,000 exceptional cost of streamlining Norprint.

Divisional profit was £4.03m (£4.73m) on sales of £49.16m (£46.48m).

Earnings per share fell to 4.4p (8.3p).

COMMENT

Norcros has been through a stormy period since it narrowly escaped Williams Holdings' £570m bid in spring 1987. With Mr Doherty coming in a year later, the management first concentrated on disposals and then turned its attention to the inadequacies of continuing activities, with the big problems being the Johnson tiles businesses and, more recently, Crosby-Sarek. With interest rates staying higher for longer than expected, the management has tried to do several costly things at once: keep up the generous dividend, continue the capital spending and pay up for redundancies and factory moves. In two years' time it may all look worthwhile as the bolstered market positions reap their harvest. Short-term reassurance would be welcome in the form of better profits from chronically flat markets. Meanwhile, the group is exciting patience from investors, comforted by a prospective yield of about 11 per cent and the thought that the good proprietary names might attract another bid. A forecast pre-tax profit of £24m to £26m gives a prospective multiple of about 10.5 on yesterday's close of 118p, which looks fully priced.

Ashley Ashwood

Michael Doherty — over £100m spent on restructuring

Morris Ashby seeks growth from castings

Pre-tax profits at Morris Ashby, a specialist diecasting and machining group, fell 17 per cent in the six months to end-September.

However the USM-quoted company said that its prospects were underlined by the appreciable increase in sales of dies and other toolings. Future profits would arise from the castings made from the dies.

Turnover was up 10 per cent at £5.66m (£5.12m) for taxable profits of £453,000 (£543,000). Earnings per share were 4.04p (4.69p) and the interim dividend is maintained at 1.7p.

Pentland splashes out for Speedo Europe

By Alice Rawsthorn

PENTLAND GROUP, the consumer products company which recently delayed plans to sell its stake in Reebok, the US sports shoe concern, is expanding its swimwear interests by buying a controlling holding in Speedo Europe.

Pentland is joining forces with Speedo Europe's management to buy the business for £4.5m. It has acquired the company from the receivers of Response, the UK clothing company which went into receivership earlier this year.

This summer Pentland acquired the worldwide rights to the Speedo name and the license for Speedo in Australia. It also participated in the management buy-out of Speedo US, which holds the license for the brand in North America.

The acquisition of Speedo Europe, which owns the Speedo license across Europe, means that Pentland is now involved with Speedo in all its main markets, except Japan.

Mr Richard Stevens, director, said Pentland plans to review the Speedo businesses to see whether there is any scope for development on an international scale. However, he did not envisage making significant operational changes in the foreseeable future.

In yesterday's deal, Pentland acquired 80 per cent of Speedo Europe's equity, with an agreement to buy the management's 20 per cent holding over the next four years. Speedo Europe last year made pre-tax profits of £900,000 on turnover of £15.6m.

The Pentland Group is planning to make further investments in consumer products. However, Mr Stevens said it was unlikely to conclude any other acquisitions in the short term.

This summer, Pentland announced plans to sell its 31 per cent stake in Reebok. The stake is still up for sale, but Pentland has suspended plans to actively market the shares because of the depressed state of the US and UK stock markets.

Flat trading leaves Holmes & Marchant 12% lower at £4.4m

By Jane Fuller

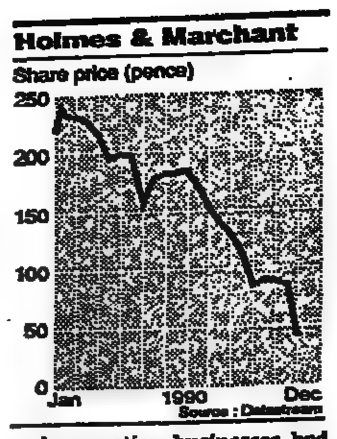
HOLMES & Marchant, the marketing services company which 12 days ago deflated profit expectations for the year to September 30, yesterday revealed a 43 per cent drop in the pre-tax figure and cut its dividend.

The fall in taxable profit from £7.67m to £4.38m included exceptional costs of £1.16m to cover redundancies and reorganisation at existing businesses, and a £245,000 loss at discontinued production units, including plate making and typesetting.

Turnover was flat at £55.81m, compared with £55.33m which was restated from the previous year's £60.4m to exclude the discontinued activities. While operating profit fell by about £1m to £7.1m, interest charges rose sharply to £1.32m (£762,000).

Net borrowings started the year at £5.6m and finished at £11.4m after the group had paid out nearly £7m cash, mostly in in deferred payments for acquisitions. Mr Emyr Jones, financial director, said this year's earn-outs would amount to £1.4m. He was budgeting for an average debt of £10m over the year.

Mr John Holmes, chairman and chief executive, who owns 12 per cent of the equity, said that whereas in previous recessions the group's packaging and promotion businesses had "gone through the roof", the reverse had happened this time.



The traditionally busy months of August and September, when clients in the food and drink sectors geared up for Christmas, had fallen flat with a particularly ill effect on sales promotion, which accounted for 25 per cent of operating profit.

Design, contributing 40 per cent, saw good performances by Holmes & Marchant and Enskat offset by Blitz, where there had been substantial management changes and a halving of the workforce.

The steadiest part of the group had been advertising agencies.

Net extraordinary costs of £951,000 included more than £1m for closing discontinued businesses. Earnings per share fell to 19.6p (30.2p) after a reduced tax charge of 17 per cent. The proposed final dividend is cut to 3.3p making a total of 6.6p (7.5p).

COMMENT

After finding that his mid-year confidence was misplaced, Mr Holmes's preferred description for current conditions is "volatile", although he is anxious to stress that things have improved since September. They need to. If, as the group hopes, its markets get no worse overall than they were in the second half of last year, it should start to bring down debt and keep interest payments adequately covered. Cutting the workforce from 620 to 480 and getting rid of the equipment to which this people business is so averse has reduced the cost base and simplified the organisation. It looks like a survivor with scope to bounce back longer term. On yesterday's closing price of 45p, less than a fifth of the January high, the prospective multiple is a little more than four on a conservative current year forecast of £3m. But there is no hurry to buy for recovery.

NEWS DIGEST

Leeds Group improves 18% to £4m

LEEDS GROUP, which has interests in textile dyeing and printing and the sale of yarn for weaving and knitting, reported an 18 per cent increase from £3.4m to £4.01m in pre-tax profits for the year to September 30.

Mr Robert Wade, chairman, said that all six textile divisions did well and showed increased profits compared with 1989. Langholm Dyeing, acquired in January, made an excellent start with profit ahead of forecast.

Turnover increased by 20 per cent to £32.99m (£27.53m) and earnings improved by just 12 per cent to 25.2p (22.6p) reflecting shares issued for the purchase of Langholm.

A proposed final dividend of 6.25p makes a 9.25p (8.6p) total.

Rent roll up 20% at Evans of Leeds

Evans of Leeds, the property investment and development group, yesterday reported profits of £3.3m for the six months to end-September 1990.

The outcome, against £3.22m, came, the company said, in spite of the continuing high cost of financing its development programme, which should result in additional rental flow.

The current annual rent roll amounted to £15.7m — an increase of some 20 per cent on the £13.11m of September 1989.

The interim dividend is raised to 1.18p (1.125p adjusted), payable from earnings of 3.35p (3.19p) per share.

Deficit deepens at Sycamore

Pre-tax losses at Sycamore Holdings, a manufacturer of foundry products, moisture testing equipment and leisure products, increased from £445,000 to £2.78m in the year to September 30 after exceptional costs of £1.6m, compared with £53,000.

Mr Bill Rhodes, appointed chairman in October, said that the loss on a slightly reduced turnover of £7.4m represented the starting point for the proposed turnround in 1990-91. The exceptional costs related to the write-off of obsolete stocks which, said Mr Rhodes, had for too long been held as useful assets of the business.

The group is undergoing financial restructuring. Last September there was a two-for-one rights issue at 10p per share and a subscription of shares to raise a further £2m. The 25p ordinary were subdivided into one ordinary share of 5p and one deferred share of 20p. The deferred shares are to be cancelled under a proposed capital reduction.

Losses per share amounted to 29.4p (4.75p). No dividend has paid since August 1984.

In Shops withdraws from leisure

In Shops, the retail and business centre operator, lifted profits to £1.91m pre-tax for the six months to September 30.

The 44 per cent rise from last time's £1.32m came on turnover ahead from £8.68m to £10.09m.

Mr Tim Brookes, chairman, said that while the business was not immune, it had shown a "strong resilience to the recessionary climate". Nevertheless, it is to cease its operations in the leisure sector, a move represented by a write-off below the line of £295,000.

Earnings per 5p share emerged at 3.74p (3.41p) and the interim dividend is to be raised by 10 per cent to 0.66p.

Acal checked by higher interest

A sharp increase from £186,000 to £439,000 in interest charges due to acquisitions held back Acal's improvement in pre-tax profits to 8 per cent at £2.16m in the half year to September 30.

The group, a USM-quoted electronics and industrial controls distributor, increased sales by 26 per cent to £30.75m (£24.31m) while operating profits rose 20 per cent to £2.52m (£2.1m). The improvement included the initial turnround of the Technitron acquisition.

Tax losses available from the purchase reduced the charge to £768,000 (£843,000). Earnings per share rose from 8.4p to 10.1p and the interim dividend goes up from 1.56p to 1.8p.

Margins under pressure at Atkins

Atkins Brothers, the Leicestershire-based textile company which earlier this year abandoned takeover talks with a prospective suitor, reported a £58,000 fall to £192,000 in pre-tax profits for the six months to end-September.

Mr Bill Dawson, chairman, blamed the 23 per cent downturn, which followed a fall in profits of £398,000 to £870,000 for the previous full year, on declining consumer spending and the hot summer.

Margins came under considerable pressure, particularly in the hosiery and leisurewear divisions.

Turnover on continuing activities dipped by 3 per cent to £7.77m (£8m). Earnings emerged at 3.6p (4.14p) and the interim dividend is a same-again 3.6p.

Interest lift for Tomorrows Leisure

Tomorrows Leisure reported a significant rise, from £176,000 to £408,000, in pre-tax profits for the half year to September 30, leaving aside the exceptional profit of £7.81m on the sale of the George Washington Hotel last year.

Mr John Sanderson, chairman, said the improved results were mainly due to interest received of £407,490 (£112,200) on bank deposits resulting from the sale of the hotel. Operating profit amounted to only £490 (£64,150) on turnover of £2.54m (2.72m).

Earnings, excluding exceptional items, were up from 1p to 2.7p. There is no interim distribution. The shares are traded on the Third Market.

Chiltern Radio advances to £1.3m

Chiltern Radio, which came to the main market some 12 months ago, yesterday reported a 35 per cent improvement in profits to £1.29m pre-tax for the year to end-September.

The company also announced that it had acquired Gloucester Broadcasting, which consists of two radio stations — Severn Sound and Three Counties Radio — for up to £1.3m.

Turnover rose to £4.1m (£3.55m) and earnings worked through at 14.3p (11.8p). A proposed final dividend of 3.8p makes a 4.8p total.

Looking ahead, Mr Peter Burton, chairman, said local advertising revenue was continuing to increase. He warned, however, that a significant decline in national advertising across the industry was likely to result in an overall fall in revenue of some 9 per cent in the first quarter compared with 1989.

Norfolk House raising £40m

Norfolk House Group, a developer of petrol service stations, has entered into a series of transactions with major oil companies, hoteliers and restaurateurs to raise £40m.

Some £30m has already been received with the balance payable over the next six months.

The transactions include the sale of 17 filling stations and 11 roadside sites for supermarket, restaurant, car showroom and pub uses throughout the UK.

The transactions also include the forward procurement of over 1bn litres of petrol and diesel fuels, which the group considers to be prudent should supplies be affected by an outbreak of hostilities in the Middle East.

BUSINESS AND THE ENVIRONMENT

Burial of waste from France's nuclear industry is coming under unprecedented public scrutiny, writes **William Dawkins**

Loud rumblings from beneath the surface

France will in the next few weeks reach the climax of a year-long debate over where and how to store high-level radioactive waste, a problem which has for the first time given large parts of the public second thoughts about nuclear power.

It might seem odd that France, more dependent on nuclear energy than any other country in the world, has made less progress on finding deep waste storage sites than other big nuclear producers. Even environmentally sensitive Germany has one deep site ready to open and another under study, while Belgium is examining a possible site and Britain has earmarked two possible areas. The US has one test site in operation and another under study. They long ago accepted that – at least technically – deep storage was the best option.

Andra, the waste management agency attached to France's state-controlled Commissariat à l'Energie Atomique (CEA), has been struggling for the past three years to complete geological surveys on four possible areas. Local opposition has been so violent the Michel Rocard, the prime minister, forced Andra to halt the project last February, to allow a year's rethink and public consultation.

Even if Andra gets the green light after the results of the consultation are published this month, it will be 20 years at the earliest before the agency can complete the testing and construction work needed for a deep storage site.

The French environmental lobby, until recently an insignificant political force, has woken up late to the dilemmas posed by nuclear power, so the government has taken that much longer to try to soothe their concerns. Until the 1986 Chernobyl accident there was a strong consensus across all respectable political parties in favour of nuclear energy, with very little public debate about waste.

Now the viscerally anti-nuclear Green Party commands around 15 per cent in the opinion polls, having taken 11 per cent of the vote in last year's European elections. The government does not want and cannot afford to change its dependence on nuclear power – and hence the need for deep waste storage – but neither can it afford to ignore the environmentalists. The Greens want the government to keep nuclear waste in temporary storage above ground and research other methods of making it safe, explains Antoine Waechter, a Euro-MP who was the Green Party's candidate in the last presidential election. Andra dismisses that idea as dangerously impractical.

French public debate on nuclear safety is still not nearly as intense as in neighbouring Germany. Yet a number of small incidents have attracted enormous publicity in recent months, most notably the discovery of faults in the water filters of 17 of France's 57 reactors. Roger Fauroux, the industry minister – ultimately responsible for civil nuclear policy – has demanded an explanation from the state-controlled Electricité de France (EdF), which has promised to tighten up on plant inspection.

Meanwhile, the discovery in September of unusually high radioactivity at a former CEA surface storage site at Saint-Aubin, south of Paris, has further intensified public worries over storage generally.

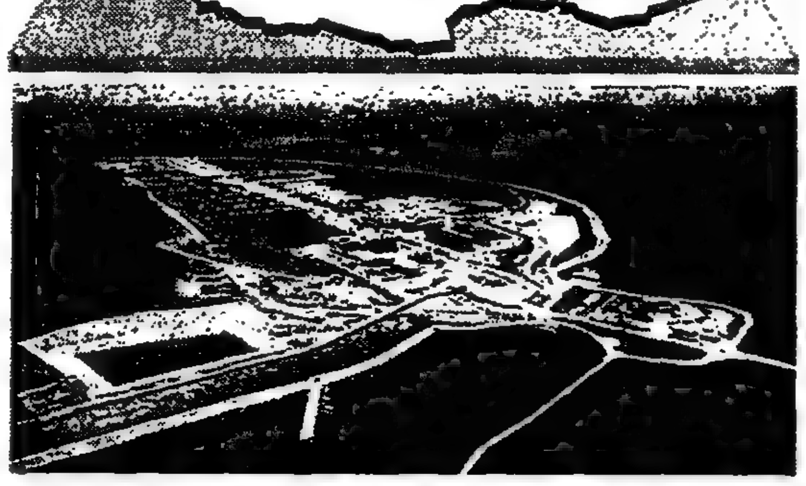
Philip Rouvillois, a strong-minded former head of the SNCF national railways board, who became CEA chairman last year, has pledged to improve the CEA's controls, to do more to inform the public and to speed up the selection of a deep storage site. Before taking up the job, Rouvillois delivered a critical report, blaming much of the current impasse on the CEA itself. The CEA had allowed its management to become rigid and lose the initiative in setting nuclear policy, especially in stressing the need for deep storage, said the document, which has shaken the whole of the French nuclear industry.

Even though France reprocesses all the EdF reactors' spent fuel, at a plant owned by Cogema, the CEA's nuclear fuel subsidiary, the process of extracting usable material still leaves behind 1 per cent of non-recyclable radioactive waste. This, plus waste from the reactors themselves, will produce about 4,200 cubic metres of medium- and high-level waste annually by the end of the decade, by when Andra reckons France will have around 92,000 cubic metres of medium- and high-level waste requiring deep storage.

Currently, France stores all its waste above ground. Low-level waste – such as clothing, glass vessels and tools from laboratories and reactors – is stored in concrete or resin containers stacked inside reinforced concrete boxes, at a 20-year-old site at La Manche, near Cogema's reprocessing plant in La Hague, Britanny, similar to the British Nuclear Fuel's storage site at Drigg, Cumbria.

La Manche's 100,000 cubic metre capacity is nearly used up, so low-level waste from next year will be delivered to a much larger site in the Aube, south east of Paris, with a 1m cubic metre capacity, enough for 30 years. Once full, the La Manche site will be covered in a waterproof bitumen-based material plus a thick layer of clay. The CEA will monitor it and ban public access for 300 years.

Storage of radioactive waste in France



High-level waste is stacked either in the same kind of container or turned into glass blocks, stored in reinforced and cooled warehouses at a Cogema vitrification plant in Marcoule or near La Hague, until a deep site can be found. "For us, surface storage is no longer a solution," says François Chenevier, Andra's director.

Andra first started looking for suitable deep storage areas in the early 1980s, in a European-wide geological survey organised by Euratom, the European Community's atomic energy co-operation body, jointly with the EC's main nuclear power producers, Germany, Britain, Belgium and Spain. The ideal geological formations for deep storage are large and stable deposits of salt, clay, granite or schist 200 to 300 metres beneath the surface.

What makes these materials ideal is that they keep out water, for any underground stream passing buried nuclear waste would contaminate the nearest spring. They must also have been stable for the past 50m to 150m years and be likely to stay that way for at least 150,000 years in the future, says Chenevier.

Three years ago, France's previous right-wing government asked Andra to come up with specific sites. In retrospect, the timing was poor, only a year after the Chernobyl accident had begun to make a previously unconcerned French public anxious about their dependence on nuclear-generated electricity.

Andra started geological surveys on four zones that appeared to fit its criteria, under clay in the Aisne area, north of Paris, salt near Bourg-en-Bresse in the south east, schist in Maine-et-Loire in the west and granite at Deux-Sèvres nearby (see map).

Opposition was so violent that Andra's engineers could only drill for samples at one site, in the Aisne, and work came to a complete halt for most of 1989.

The Government asked Andra to start again at the end of last year, but changed its mind a few months later, sensitive to complaints from trade unions and environmental lobbies that it had failed to consult the public properly. Rocard accordingly called for a 12-month moratorium on the deep storage project while interested parties could give their views.

Two bodies were asked to report, the independent Collège de la Prévention des Risques, plus a parliamentary committee of 15 senators and 16 MPs. They are expected to produce their final opinions by the middle of this month. In an encouraging sign for the CEA and the government, the college has already said in a preliminary report last April that deep storage is unavoidable. The parliamentary committee's stance is still an open question, says Chenevier.

The college provisionally recommends that Andra excavate underground laboratories at each of the four sites, to monitor the geological conditions for eight to 10 years. On the strength of these studies it would choose the safest single site around the year 2000, to come into service by 2010. This is exactly in line with accepted technical practice and with Andra's plans, says Chenevier.

Locals questioned by the parliamentary committee have come up with three main kinds of objections. Some – led by the purist Green Party – want a complete stop to nuclear power, extremely unlikely to become public policy. The government accepts that it was late in recognising that it had ordered a surplus of reactors in the 1980s, and now plans to keep the number of plants roughly stable. Yet the French nuclear consensus is still strong, even if it is coming under unprecedented public scrutiny.

Then there are those who worry that there are inadequate independent controls on the CEA and Andra, often portrayed in the French press as shadowy and unaccountable bodies, an anxiety which Chenevier believes can be tackled by issuing more public information. Finally, some fear that the proximity of a nuclear storage site will frighten away investors, harming the regional economy, a problem which the government takes seriously but has yet to provide a specific answer.

"We cannot very well do nothing," says Chenevier. "We face a profound choice. We either settle the problem of storage now or face more serious questions later. I think it would be irresponsible for us to benefit from nuclear power and leave it to later generations to deal with the waste." Germany and Britain have agonised over the same problem, but it is only now coming to a head in France, no longer the only European country to accept nuclear power with an unquestioning smile.

ICI sets its sights on a green horizon

By Clive Cookson

Sir Denys Henderson, chairman of ICI, is for the first time sending an individual letter to each of the chemicals group's 134,000 employees worldwide. It sets out the company's new environmental objectives, which he announced at a Financial Times conference in London last week. ICI is to double its environmental spending to £1bn over the next five years.

"Writing to everyone is an expensive thing to do," says John Coleman, ICI's newly appointed environmental affairs manager. "The letter has to be translated into a lot of different languages and we have to deliver it to the homes of people working at remote sites. This shows the importance we attach to the environmental objectives."

"Good environmental performance is no longer optional. It is essential if ICI is to continue as a leading international chemical company into the next century," Sir Denys says. There are four objectives:

- "All new plants will be built to standards that will meet the regulations we can reasonably anticipate in the most environmentally demanding country in which we operate that process." That will most often mean adopting standards from the US, the Netherlands or Germany, according to Chris Hampson, ICI director responsible for environmental policy.
- ICI will reduce the output of all wastes by 50 per cent by 1995. "We will pay special attention to those which are hazardous and we will try to eliminate all off-site disposal of environmentally harmful wastes," Sir Denys tells staff.
- ICI will step up its energy and resource conservation programme. Energy consumption per unit of output is 50 per cent lower today than 17 years ago and ICI's internal objective is to cut it by half again within five years, Coleman says. "We can probably get very close to a 50 per cent reduction in overall energy consumption but, unlike the waste objective, some individual units may have huge problems achieving it."
- Waste recycling programmes will be set up during 1991, not only in-house but also with customers to recycle ICI products and packaging.

With ICI's overall spending being cut because of the recession, environmental projects will account for more than 20 per cent of capital expenditure during the early 1990s. But, Sir Denys warned, "some plants and some processes may not be able to justify the expenditure needed to improve current standards. They simply will not survive." ICI executives declined to identify plants and processes at risk of closure for environmental reasons.

The general opinion of the chemical industry is that ICI's environmental performance has lagged behind its three giant German competitors, BASF, Bayer and Hoechst.

"In terms of actual performance I think we have to say that the German companies are a step ahead of us, though that's partly for historical reasons," Hampson admitted. "Each of our German competitors has a large central plant on the Rhine, which makes it easier for them to install comprehensive waste treatment facilities than for us with our more decentralised facilities."

The ICI initiative received only the most grudging welcome from Tim Birch, toxic waste campaigner for the environmental group Greenpeace. "It is a step in the right direction, but ICI is simply being forced to do this because of the government commitment to cut discharges into the North Sea," he said.

Greenpeace wants ICI to follow the example of large US chemical companies such as Du Pont and Monsanto, by commiting itself to cut waste emissions by 70 per cent or more during the 1990s.

Hampson, however, rejects the claim that the US companies are ahead of ICI. "Du Pont has been better at getting the environmental message across but in terms of actual performance I don't think they are any different."

The two largest targets for ICI's spending are its chemicals complexes on Merseyside and Teesside. "I think we have further to go on the Mersey than on the Tees," Coleman says. "We are seeing salmon again in the Tees. I think it will be some time before we see salmon in the Mersey.

COMMODITIES AND AGRICULTURE

Uneconomic aluminium capacity put at 7 per cent

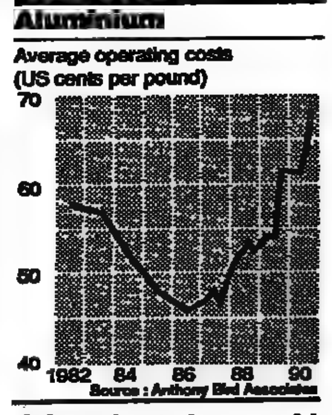
By Kenneth Gooding, Mining Correspondent

MORE THAN 1m tonnes of primary aluminium production capacity, or about 7 per cent of the what used to be called non-socialist world capacity, looks permanently uneconomic because operating costs are higher than the likely metal price, according to the Anthony Bird consultancy group. Most of this capacity is in Europe and "either the European industry will have to pull off cost reductions of the kind seen in America in 1985-87 or many plants will have to close down," said Mr Anthony Bird yesterday.

His organisation's annual aluminium production costs survey suggests that average operating costs rose by 39 per cent between mid-1986 and the middle of this year, from 45.8 US cents a lb to 63.7 cents a lb. Total average costs in mid-1990 were 81 cents.

High-cost production countries, according to Bird, are Italy, with operating costs of 75 cents a lb; Germany, 74 cents, and Spain, 73 cents. Low cost producers include Venezuela, 47 cents; Canada, 53 cents; and Australia, 58 cents.

Bird lists the average costs



of the major producers as follows: Alcan, 59 cents a lb; Comalco, 60 cents; Alumax, 61 cents; Reynolds, 62 cents; Pechiney, 64 cents; Alcoa, 65 cents; Kaiser and VAW, 66 cents each; Hydro, 68 cents; and Alusuisse, 77 cents.

Mr Bird said the pace of cost increases had been slowing – operating costs in the latest year were up only by 5 per cent compared with a 15 per cent rise in the previous 12 months.

That was because a steep rise in the cost of alumina (aluminium oxide) was now being reversed and "over the next few years trends in the alumina market will start to pull metal costs down again."

Weakness in the metal markets had also helped because many smelters have power supply contracts related to the market price of the metal. Bird estimates that a 1 cent fall in the aluminium price automatically leads to a 0.2 cent fall in average production costs. But not all smelters benefit.

Average costs are also affected by exchange rate fluctuations and in the closing months of 1990 the weakness of the US dollar has inflated the cost averages (which are measured in dollars) significantly.

"Aluminium production costs 1990," £4,950 for three volumes from Bird Associates, 193 Richmond Road, Kingston upon Thames, Surrey KT2 5DD.

LME WAREHOUSE STOCKS
(As at Monday's close)
tonnes

Aluminium	−550	to 315,050
Copper	−3,900	to 164,000
Lead	−100	to 43,300
Nickel	+276	to 2,646
Zinc	−550	to 35,730
Tin	+895	to 15,380

Nickel and tin cuts forecast

By Kenneth Gooding

NICKEL AND tin producers are likely to close down production capacity because of present low prices for their metals, London analysts suggest in a series of special reports.

But no copper closures can be expected, although producers are facing similar pressures, partly because so much is mined in areas where considerations such as the generation of foreign exchange are more important than profitability.

Some nickel operations are suffering severely from the recent sharp increase in oil prices. Each US$1 a barrel rise in the cost of oil adds as much as 4.5 cents a lb to the cost of production at some of the nickel plants which depend heavily on the fuel, estimates the Rudolf Wolff commodity broking group.

Falconbridge, the second-largest western nickel producer, has already warned that it might halt its Dominican Republic operations, Wolff points out. "We would expect further production cutbacks if nickel prices remained below $3.50 a lb."

It says the weakening economic climate will tend to depress nickel prices during the first half of 1991 but the sharp falls seen recently have already discounted the expected drop in demand. Cuts in output by producers, coupled with the uncertainties surrounding nickel production in Cuba, where the 10,000 tonnes a year Punta Gorda plant is closed, and the Soviet Union, are likely to result in a short-term price rally as consumers return to the market, says Wolff. "We would, however, expect any advance above $4.20 a lb to be met by producer forward selling."

Wolff suggests that the price of three-month nickel on the London Metal Exchange might fall as low as $2.80 a lb before returning to a range between $3.20 and $3.50.

Billiton-Enthoven Metals says that at present prices about 60 per cent of non-eastern bloc tin refining capacity is operating at a loss.

"However, given the political ramifications of closure for some countries, not to mention the high costs often associated with such a move, it may require a prolonged period of depressed prices before the necessary players can be persuaded to quit the stage," says Billiton.

Nevertheless, it expects that in 1991 there *will* be some closures so that refined tin supply will fall from an estimated 193,000 tonnes this year to 185,000 tonnes in 1991.

But, as consumption is also likely to fall, from 177,000 tonnes this year to 170,000 tonnes, the tin market next year will see its first production surplus since 1985.

Billiton does not supply any detailed price forecast but says "it is difficult to see why the downward pressure (on prices) should not be maintained in this market. There is little hope of relief from the demand side of the equation and, indeed, the picture if anything has continued to worsen as the year has progressed."

Shearson Lehman Brothers' special copper report points out that the present price offers little incentive for producers to cut output because it is still comfortably above production costs. But copper stocks may rise as increased output from low-cost solvent-extraction, electro-winning plants makes itself felt, as well as the first metal from the Escondida mine in Chile.

"It only takes a small increase in inventories for prices to fall sharply," Shearson points out.

It forecasts that supplies of refined copper will rise from 8.76m tonnes this year to 8.89m in 1991 while demand will move up at a much slower rate, from 8.715m tonnes to 8.725m tonnes, so the production surplus can be expected to rise from 45,000 tonnes to 165,000 tonnes.

The LME cash price for copper is consequently predicted by Shearson to fall from an average of $1.20 a lb this year to 95 cents in 1991, falling to that level by March.

Guerillas hijack Peruvian coffee hopes

Sally Bowen reports on the many problems that are plaguing the country's growers

FOR 30 years Chanchamayo, in Peru's Junin department, was a coffee-growers' paradise. It still looks that way. Blue-green coffee-clad hills slope down to the banana and citrus plantations in the semi-tropical valleys.

But "last year death came to the valley," says Mr Heli Mendieta, one of the pioneers who in 1960 opened up the Pichanaki valley 40 miles east of La Merced, capital of the department. The new frontier was colonised by a number of hard-working and ambitious families, mostly of Italian or German origin. "It was a good, healthy life – coffee supported us all," says Mr Mendieta.

Now Chanchamayo's most progressive farmers have gone. In late 1988, Peru's two guerilla groups, Shining Path and MRTA (the Tupac Amaru Revolutionary Movement) moved into the valley to start milking the well-to-do coffee farmers. The guerillas ran protection rackets, demanding "quotas" of up to $80,000, and often kidnapping prosperous farmers for ransom. "This has become the guerrillas' Wall Street and their Miami," says Mr Mario la Rosa, for eight years La Merced's mayor. "Here's where they pick up their cash and have their fun."

As a result, many large farms now lie abandoned, the jungle swiftly moving in to reclaim them. The smaller growers who remain have seen yields plummet by over half this year as fertiliser prices rocketed and agricultural credit disappeared.

The sharp fall in Peru's 1990 total coffee production – variously estimated at between 20 and 40 per cent of last year's 1.87m quintals (46 kg each) – is ironic. Since the collapse of the International Coffee Organisation's quota system in July 1989, Peru had pushed up coffee exports and prospects for new markets were good.

Large farms lie abdandoned while the smaller growers have seen their yields plummet for lack of fertiliser

"More Peruvian companies are entering the marketing and export of coffee – we are becoming more competitive and efficient," says Mr Fernando Guzman of the Manufacturers' Society's coffee committee. With 85 per cent of all Peruvian-grown coffee of export quality, there were optimistic predictions at the start of this year that 1990 exports could top 2m quintals. An unholy trinity of drought, lack of credit and terrorism has firmly capped that optimism.

The story of Mr Lorenzo Romero underlines current conditions in Chanchamayo, where 40 per cent of Peru's coffee is grown. Mr Romero's 475 acres had made him, over the past three decades, the valley's leading grower. He introduced the stocky "caturra" coffee bush from Costa Rica 30 years ago, and more recently the "catimor". His yields were among the highest, his technology considered model. In 1984 he established the first processing plant in the valley, importing Brazilian machinery for husking and classifying beans. By 1986 he was processing 25,000 of the valley's 650,000 quintals and aiming to reach 65,000.

But in July last year, Shining Path terrorists struck, killing his two watchmen, burning the farm storehouses and destroying machinery.

"Many farmers of more humble origin aspired to be like Don Lorenzo," said his estate administrator. "He was a good employer, a successful farmer – it looked ideal. But these are ideals Shining Path doesn't share." The guerillas accused him of exploitation and encouraged his workers to expropriate the Romero land.

To defuse tension, Mr Romero distributed half of his coffee plantation among the permanent workers who have completed this year's harvest. But yields, without supervision and essential fertilisers, have dropped to a quarter of last season's.

"As a business, it's bankrupt," says the administrator. Mr Romero has left to live in Lima and the processing plant has been sold to a nearby mining operation for use as a workshop.

Shining Path local propaganda indicates no fundamental opposition to coffee production. Their broadsheets demand a "just price" and denounce the "profiteering intermediaries". But the effect on production levels has been devastating. There are recent reports, too, of Shining Path insistence that growers start planting coca, destined for the narcotics trade, alongside their coffee bushes.

Coca is the only viable alternative crop for the valley's hillsides. Currently Chanchamayo, 11 degrees south of the equator, grows arabicas at heights between 700 metres and 2,000 metres above sea level. The variety, similar to Colombian coffees, does well on up to 45 degree slopes. Locals often plant it beneath other trees, as shade reduces the requirement for fertiliser.

In the last few years before the system collapsed Peru's ICO quota covered only about half of its production. The country's share of the quota total had been gradually whittled down to 1.5 per cent by Ecuador and "years of diplomatic mismanagement", according to Mr Eduardo Musso, Peruvian delegate to last year's ICO meetings.

Being accustomed to selling half its coffee outside the quota system, the country has been hit less hard than Colombia or Brazil by the collapse of the ICO agreement. This year, the European Community has bought more Peruvian coffee than ever before (31 per cent of January to September exports), although the US is still the major market with 42 per cent. Various Japanese importers accounted for 12 per cent. The small but important trade with the eastern bloc countries has been paralysed, however, by the virtual collapse of the debt-for-product mechanism.

Coffee remains Peru's leading agricultural export crop, earning US$155m last year, about 4.4 per cent of total exports.

The main problems are likely to come on the supply side, however.

Coffee co-operatives, once the source of 80 per cent of Peruvian coffee, are in decline. Mr Ivan Pineda, president of Fencocafe (the Coffee Co-operatives Federation) says they now account for only 30 per cent of the total. "It's a problem of education mostly," he says. "Small growers don't understand technology so their yields are uneconomically low. And now they can't get credit for fertilisers or insecticides to keep diseases under control."

Fencocafe, like the Manufacturers' Society, is disturbed by the number of coffee growers reported to be turning to coca. Coca leaf grows in the same areas, on the same steep slopes, as coffee but needs almost no attention or costly inputs. Farmer in Peru's traditional coffee-growing areas can currently get four times more income from a hectare of coca than from coffee.

Long-time residents of the Chanchmayo valley are pessimistic. Caught between terrorism and Peru's macro-economic problems, they say the future of their local economy looks bleak. "We are like orchids, we're all parasitic plants living off coffee," says Mr Mario la Rosa. "If coffee falls, we all fall."

Gorbachev details Soviet food purchasing plans

By Quentin Peel in Moscow

PRESIDENT MIKHAIL Gorbachev yesterday gave details of the Soviet Union's emergency food purchasing plans for the next four months, including thousands of tonnes of flour, meal, sugar, cooking oil, meat and milk products.

He said the list had been drawn up by an emergency food supply committee, set up to overcome the desperate shortages of basic food stuffs in the state supply system.

In a special address to the Supreme Soviet, the national parliament, Mr Gorbachev said the purchases between now and March next year would include 10m tonnes of grain, 4.5m tonnes of milk products, and 1.9m tonnes of sugar.

"If we cannot manage ourselves, we will have to import food supplies," he said. The government intended to get food from the west "both on the basis of loans, and as food aid."

Adding to details of next year's food import programme provided by Mr Nikolai Ryzhkov, the prime minister, at the weekend, he said the first quarter alone would require 156,000 tonnes of flour, 110,000 tonnes of meal (usually oats and barley), 1.9m tonnes of sugar, 277,000 tonnes of vegetable oil, 357,000 tonnes of meat, 4.5m tonnes of milk products, as well as 10m tonnes of grain, and unspecified quantities of eggs and meat.

He said Soviet milk consumption in December would be 800,000 tonnes less than normal.

"For all of that we need 2.1bn," he said, leaving it unclear if he was talking in roubles, at the new or old exchange rate, or in dollars. "Some contracts have already been worked out, and the deliveries are on the way, and negotiations are under way for others," he added.

The food imports would enable the country to maintain food consumption at the levels of 1989, the Soviet leader said.

Heat wave delays planting in Brazil

By Victoria Griffith in Sao Paulo

RECORD TEMPERATURES in the central-south of Brazil have delayed the planting of key crops, including soyabeans, maize and rice, and may affect the harvesting and quality of coffee. Reports of the hot weather helped to lift the New York coffee market.

Temperatures reached 36.8 deg C (98 F) in the south-western state of Parana, on November 15, the hottest day there in 40 years. In the southern state of Santa Caterina, 300,000 chickens died from the excessive heat.

Unevenly distributed rainfall has also affected planting in Brazil. Rains have been too strong in some areas and lacking in others. Brazilian meteorologists say the heat will continue over the next few months. The high temperatures are due to a subtropical hot air mass which extends over the South of Brazil into Argentina.

Rio Verde in Goias, the biggest soyabean producing region in Brazil, may suffer a big reduction in its harvest with growers predicting a cut in plantings of nearly 40 per cent to 90,000 hectares.

The reduction is due not only to the weather conditions, but also to the severe lack of credit available to farmers in Brazil. The credit squeeze is so tight that growers have not been able to make a switch to maize, a cheaper crop to produce. Farmers here had been hoping to pull themselves out of the crisis through the crop substitution.

MINOR METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,630-1,670 (same).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 2.75-2.90 (same).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 1.15-1.35 (1.30-1.50).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 12.20-12.60 (same).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 155-165 (165-175).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.52-2.60 (2.50-2.60).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 4.80-5.40.

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO_3, cif, 37-49 (same).

VANADIUM: European free market, min. 98 per cent, $ a lb V_2O_5, cif, 2.25-2.35 (same).

URANIUM: Nuexco exchange value, $ per lb, U_3O_8, 11.45 (same).

WORLD COMMODITIES PRICES

MARKET REPORT

Aluminium prices moved ahead on the LME early after a 550 tonne stocks fall – the first downward move since October 12. But in the afternoon the market moved lower under some hedge selling before finding support below $1,530 a tonne for three month metal. Copper stocks fell 3,900 tonnes, but this had no significant impact on prices as it was in line with market forecasts. Tin prices continued to retreat. Stocks are now at their highest (15,380 tonnes) since trading restarted on the LME. New York arabica coffee futures were sharply ahead at midday on continued talk of a dock strike in Colombia and hot, dry weather in Brazil. Traders said the Colombia strike talk remained sketchy but locals and commission houses were buying on it because there had been so little cash market news of late. London's robusta market closed sharply higher, underpinned by the large uncovered position on January. Traders saw potential profit in staying long, dealers said. On the BFE freight futures closed well up after Soviet Union President Gorbachev's announcement of major food import plans. But the market is overbought and some profit-taking is expected, dealers said.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)		+ or −
Dubai	$25.45-5.65	+0.75
Brent Blend (dated)	$31.45-1.55	+0.35
Brent Blend (January)	$29.95-30.05	+0.25
W.T.I. (1 pm est)	$29.75-9.85v	+0.08
Oil products (NWE prompt delivery per tonne CIF)		**+ or −**
Premium Gasoline	$285-90	+1
Gas Oil	$314-6	+1
Heavy Fuel Oil	$141-7	+6
Naphtha	$275-6	-2
Petroleum Argus Estimates		
Other		**+ or −**
Gold (per troy oz)♣	$378.00	-3.20
Silver (per troy oz)♣	416.4c	+3.55
Platinum (per troy oz)	$432.25	+2.75
Palladium (per troy oz)	$83.00	+1.[illegible]
Aluminium (free market)	$1505	+10
Copper (US Producer)	116c	
Lead (US Producer)	60c	
Nickel (free market)	384c	-3
Tin (Kuala Lumpur market)	15.38r	-0.03
Tin (New York)	289c	-2
Zinc (US Prime Western)	70c	
Cattle (live weight)†	103.34p	-0.67*
Sheep (dead weight)†	147.49p	+6.11*
Pigs (live weight)†	70.41p	-2.36*
London daily sugar (raw)	$253.2w	-6.0
London daily sugar (white)	$307.0w	-4.0
Tate and Lyle export price	£240.00	-2.5
Barley (English feed)	£118u	
Maize (US No. 3 yellow)	£163.5	
Wheat (US Dark Northern)	[illegible]	
Rubber (Jan)♥	50.75p	-0.50
Rubber (Feb)♥	51.00p	-0.50
Rubber (KL RSS No 1 Jan)	241.3m	-1.0
Coconut oil (Philippines)§	$350.0z	-10.0
Palm Oil (Malaysian)§	$360.0v	-7.5
Copra (Philippines)§	$250x	
Soyabeans (US)	£144	+2
Cotton "A" index	82.80c	-0.10
Wooltops (64s Super)	412p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. q-Nov/Dec. t-Feb. v-Jan. w-Dec/Jan z-Jan/Feb. x-Mar. †Meat Commission average fatstock prices. * change from a week ago ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low
Mar	217.00	218.00	221.60 215.00
May	218.40	219.60	222.80 218.00
Aug	221.80	222.40	222.00 221.60
Oct	221.80	222.00	222.60 221.00
Dec	221.80	225.00	217.00
Mar	223.00	224.00	222.00

White	Close	Previous	High/Low
Mar	301.5	302.0	305.5 300.2
May	301.5	302.0	305.1 300.8
Aug	306.7	307.0	307.3 299.0
Oct	288.7	289.0	288.2 280.5
Dec	285.2	286.0	289.0 278.5
Mar	285.7	286.0	288.5 284.5

Turnover: Raw1659 (1395) lots of 50 tonnes. White 953 (1015)
Paris- White (FFr per tonne): Mar 1595, May 1542, Aug 1578, Oct 1490.

CRUDE OIL – IPE $/barrel

	Latest	Previous	High/Low
Jan	30.25	29.72	30.30 29.50
Feb	28.80	28.47	28.90 28.25
Mar	27.30	26.90	27.65 27.25
Apr	26.20	25.50	26.60 26.20
May	25.60	24.20	25.60 25.60
IPE Index	29.02	28.15	30.15 29.02

Turnover: 14041 (12888)

GAS OIL – IPE $/tonne

	Latest	Previous	High/Low
Dec	300.50	298.00	301.00 293.00
Jan	279.25	279.00	281.00 273.00
Feb	262.00	262.00	263.00 260.75
Mar	244.50	241.00	245.00 242.00
Apr	227.50	227.00	234.00 227.50
May	223.00	222.00	225.00 220.00
Jun	218.00	219.50	223.00 218.00
Jul	216.00	222.50	219.00 214.50

Turnover 6452 (12778) lots of 100 tonnes

JUTE
C and F Dundee BTC $520, BWC $530, BTD $470, BWD $460; C and F Antwerp BTC $500, BWC $500, BTD $440, BWD $440.

COTTON
Liverpool - Spot and shipment sales for the week ending 30th November reached a total of 172 tonnes, against 215 tonnes in the previous week. Sales were centered mainly on American and Turkish deals.

COCOA – London FOX £/tonne

	Close	Previous	High/Low
Dec	660	669	662 656
Mar	711	726	721 710
May	740	755	750 736
Jul	764	777	770 768
Sep	785	797	793 784
Dec	809	819	816 805
Mar	830	841	837 829

Turnover: 10,311 (6933) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Dec 3 956.08 (955.97) 10 day average for Dec 4 961.25 (965.11)

COFFEE – London FOX £/tonne

	Close	Previous	High/Low
Jan	646	633	650 630
Mar	603	586	609 592
May	601	587	602 [illegible]
Jul	610	595	613 595
Sep	626	620	624 612
Nov	645	630	694

Turnover 2869 (3057) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Nov 30: Comp. daily 70.73 (71.24). 15 day average 69.80 (69.65)

POTATOES – BFE £/tonne

	Close	Previous	High/Low
Apr	138.2	137.0	138.4 137.0
May	157.0	158.0	157.0 158.0

Turnover 77 (280) lots of 40 tonnes.

SOYAMEAL – HI-PRO £/tonne

	Close	Previous	High/Low
Feb	120.00		120.00
Apr	122.00	120.00	122.00
Jun	122.50	120.50	122.50
Aug	123.00		123.00

Turnover 85 (71) lots of 20 tonnes.

FREIGHT FUTURES – BFE $10/index point

	Close	Previous	High/Low
Dec	1410		1400
Jan	1390	1357	1400 1364
Apr	1310	1278	1315 1277
Jul	1080		1080 1040
Oct	1160		1180
BFI	1368	1365	1368

Turnover 785 (249)

GRAINS – BFE £/tonne

Wheat	Close	Previous	High/Low
Jan	120.70	120.40	120.75 120.00
Mar	123.85	123.85	124.00 123.60
May	127.30	127.15	127.50 126.80
Barley	**Close**	**Previous**	**High/Low**
Jan	116.60	117.15	116.60 116.55
Mar	120.00	120.30	120.00 119.70

Turnover: Wheat 176 (54), Barley 101 (136). Turnover lots of 100 tonnes.

PIGS – BFE (Cash Settlement) p/kg

	Close	Previous	High/Low
Jan	88.0	88.5	88.0
Feb	89.0	89.5	89.0
Mar	93.0	93.5	93.5 93.0

Turnover 19 (95) lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)					Total daily turnover 8,854 lots	
Cash	1492-4	1493-5	1502	1502-3		
3 months	1525-7	1527-9	1540/1527	1534-5	1529-30	596,686 lots
Copper, Grade A (£ per tonne)					Total daily turnover 21,451 lots	
Cash	1290-2	1302-4	1290	1290-1		
3 months	1300-1	1306-7	1313/1298	1311-2	1309-4	113,634 lots
Lead (£ per tonne)					Total daily turnover 2407 lots	
Cash	332-4	342-4	334	335-4		
3 months	341-2	346.5-7	349/340.5	343-4	341-2	10,582 lots
Nickel ($ per tonne)					Total daily turnover 1,287 lots	
Cash	8265-75	8325-50	8300/8270	8250-60		
3 months	8075-80	8075-125	8125/8075	8080-100	8075-160	8,130 lots
Tin ($ per tonne)					Total daily turnover 2,035 lots	
Cash	5790-810	5855-65		5780-90		
3 months	5830-40	5875-80	5840/5790	5820-5	5835-45	9,580 lots
Zinc, Special High Grade ($ per tonne)					Total daily turnover 5,361 lots	
Cash	1244-6	1240-5		1250-1		
3 months	1233-4	1225-7	1245/1234	1235-7	1237-40	20,036 lots

LME Closing £/$ rate: SPOT: 1.9295 3 months: 1.9030 6 months: 1.8759 9 months: 1.8585

ROBUSTA – London FOX

	Close	Prev.	High	Low	Vol
Index	157.20	158.20			
Dec	158.70	158.00	158.50	158.10	96
Jan	158.40	157.80	157.80	157.80	90
Feb	158.40	157.80	157.40	157.40	99
Mar	157.70	157.80	157.20	157.25	63
Jun	157.80	157.50	158.20	158.20	99
Sep	157.70		157.10	157.10	87

LONDON BULLION MARKET
(Prices supplied by N.M.Rothschild)

Gold (fine oz) $ price		£ equivalent
Close	377.20-378.20	
Opening	376.40-376.80	
Morning fix	377.00	195.865
Afternoon fix	377.60	195.384
Day's high	378.50-378.00	
Day's low	376.40-376.20	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	5.12	6 months	5.06
2 months	5.00	12 months	5.05
3 months	5.06		

Silver fix	p/fine oz	US cts equiv
Spot	216.65	416.40
3 months	222.60	424.50
6 months	228.50	433.05
12 months	242.50	440.75

TRADED OPTIONS

Coffee	Jan	Mar	Jan	Mar
600	57	41	11	35
650	28	23	32	70
700	11		65	
Cocoa	**Mar**	**May**	**Mar**	**May**
700	[illegible]	74	59	36
750	38	49	69	60
800		32		93
Brent Crude	**Jan**	**Feb**	**Jan**	**Feb**
3300		160		
3350				
3400	15	125		

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Jan	29.75	30.15	30.10	29.10
Feb	29.00	29.57	29.35	28.50
Mar	28.10	27.86	28.45	27.70
Apr	27.00	26.71	27.40	26.95

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Jan	8575	8467	8690	8460
Apr	7300	7214	7325	7180
May	7009	6994	7000	6870

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Dec	1197	1217	1266	1196
Mar	1236	1254	1265	1225
May	1278	1295	1302	1266
Jul	1308	1329	1335	1304
Sep	1339	1359	1355	1335
Dec	1379	1397	1402	1366
Mar	1413	1430	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Dec	86.00	84.05	86.00	84.30
Mar	90.95	87.25	91.60	87.50
May	92.85	89.65	93.40	89.75
Jul	95.00	91.90	95.25	92.25
Sep	97.00	93.50	97.00	94.40
Mar	101.50	97.75	100.75	100.75

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Mar	9.71	9.76	9.86	9.70
May	9.79	9.82	9.90	9.77
Jul	9.82	9.87	9.94	9.81
Oct	9.83	9.87	9.94	9.80
Mar	9.92	9.96	10.00	9.92

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Dec	75.60	75.88	75.90	75.60
Mar	73.88	73.76	73.95	73.50
May	73.48	73.45	73.70	73.35
Jul	73.35	73.25	73.45	73.22
Oct	67.57	67.77	67.80	67.75
Dec	65.27	65.12	65.35	65.10
Mar	66.11	66.01	66.25	66.00

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jan	107.70	107.80	108.70	107.50
Mar	110.35	110.30	111.35	110.30
May	112.00	111.95	112.65	112.00
Jul	113.00	112.10	113.75	113.00
Sep	113.00	112.10	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)

Dec 4	Dec 3	mnth ago	yr ago
1712.6	1715.5	1694.2	1803.4

DOW JONES (Base: Dec. 31 1974 = 100)

	Dec 3	Nov 28	mnth ago	yr ago
Spot	123.05	123.02	123.10	127.19
Futures	123.93	123.80	127.02	123.69

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Dec	378.9	376.5	380.5	377.5
Jan	379.6	377.5	0	0
Feb	380.5	378.5	381.8	378.8
Apr	383.5	381.8	384.8	382.0
Jun	386.8	384.8	387.5	385.7
Aug	389.5	387.5	390.0	390.0
Oct	392.8	391.0	393.8	393.2
Dec	396.1	394.3	396.0	396.0
Feb	399.4	397.6	0	0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Dec	423.3	417.6	421.0	421.0
Jan	425.0	420.5	427.0	422.2
Apr	431.8	425.8	432.0	428.5
Jul	434.8	429.5	434.2	433.8
Oct	436.5	433.0	436.0	437.0
Jan	443.5	436.9	442.3	442.3

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Dec	415.1	413.8	417.0	412.5
Jan	416.6	415.3	0	0
Feb	420.4	418.1	0	0
Mar	424.3	420.0	428.5	421.5
May	430.3	429.0	431.0	430.0
Jul	436.2	434.9	438.5	436.5
Sep	442.0	440.7	441.0	441.0
Dec	450.2	448.9	451.0	450.0
Jan	452.4	451.1	0	0
Mar	458.0	457.5	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Dec	113.20	112.25	114.10	111.70
Jan	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jan	601/2	601/2	605/0	595/4
Mar	616/2	615/4	620/0	610/4
May	629/4	629/0	633/4	624/4
Jul	640/6	639/4	643/4	635/0
Aug	640/0	642/0	644/0	637/0
Sep	629/6	629/4	633/0	627/0
Nov	627/2	624/6	629/4	620/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Dec	21.57	21.49	21.60	21.30
Jan	21.77	21.72	21.79	21.41
Mar	22.06	22.04	22.08	21.70
May	22.33	22.32	22.35	22.00
Jul	22.49	22.55	22.53	22.24
Aug	22.35	22.50	22.50	22.20
Sep	22.32	22.50	22.45	22.20
Oct	22.30	22.50	22.30	22.25

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Dec	177.5	179.7	179.5	176.4
Jan	179.6	181.5	182.5	178.6
Mar	184.5	187.0	187.9	183.8
May	187.9	189.5	190.5	186.5
Jul	190.7	189.5	193.0	189.5
Aug	191.9	186.0	193.0	[illegible]
Sep	190.5	185.5	190.5	187.0
Oct	187.0	187.0	188.0	187.0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Dec	228/2	230/2	231/4	227/0
Mar	237/6	238/6	239/6	236/6
May	244/6	245/4	246/4	243/4
Jul	250/2	250/6	251/4	249/0
Sep	250/2	250/4	251/6	249/6
Dec	250/2	250/2	251/2	250/0
Mar	257/0	256/6	257/2	256/4

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Dec	244/6	247/4	247/2	243/2
Mar	261/4	264/0	264/2	259/4
May	268/6	272/0	272/0	267/2
Jul	274/2	277/4	277/4	273/0
Sep	279/4	283/0	282/4	279/4
Dec	291/0	294/4	294/0	290/4

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Dec	78.60	78.70	79.05	78.55
Feb	74.90	75.07	75.42	74.85
Apr	75.72	76.00	76.12	75.70
Jun	73.57	73.67	73.85	73.50
Aug	72.05	72.10	72.40	72.05
Oct	72.15	72.25	72.40	72.15

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
Dec	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]

LONDON STOCK EXCHANGE

Weakness on negative company news

A GLOOMY stock market took its cue yesterday from negative company news and weak sterling, which led to increased pessimism that there would be any early cut in UK interest rates, and certainly not before publication of the retail prices index on December 14.

The reversal of sentiment on interest rates over the last few days was given added impetus by a speech from Mr John Major, the new prime minister, who reaffirmed yesterday that fighting inflation was the "centrepiece" of government economic policy.

Investors could find no encouragement on the international scene either. There were renewed suggestions that the Gatt talks in Brussels were close to collapse and Washington showed no sign of deviating from its statement that

Account Dealing Dates		
*First Dealings:		
Nov 19	Dec 10	Dec 31
Option Declarations:		
Dec 6	Dec 27	Jan 10
Last Dealings:		
Dec 7	Dec 28	Jan 11
Account Day:		
Dec 17	Jan 7	Jan 21

*New-time dealings may take place from 8.30 am two business days earlier.

proposed talks with Iraq would not "negotiate downwards" from United Nations resolutions. European and US markets took this to mean a lessening of the chances of a negotiated peace.

The FT-SE 100 opened 6 lower, partly a precautionary mark-down by marketmakers, prompted by a fault in the stock exchange's new company news service. It spent all but a few minutes of the day in negative territory, hitting a low just before the close and finishing at 2146.3, down 16.4 on the day.

Several blue chips, including BTR and GEC, showed significant declines. There were more company downgradings: yesterday's victims included GKN and Turner & Newall.

Pessimism on the health of UK companies derived also from the main UK government statistic of the day: liquidity ratios. These are seen as an indicator of companies' cash flows, ability to invest and pay dividends. They reached their lowest level since 1975. Furthermore, the new low came after two quarters where a long-term decline seemed to have steadied.

Liquidity was of particular interest because of results from companies identified as having vulnerable dividends. Many analysts had expected a final dividend cut from Trafalgar House, largely because of the company's involvement in the depressed property sector. GEC, on the other hand, was forecast to maintain a long-standing tradition of increasing its payout. In the event, Trafalgar raised its full year figure and GEC left its unchanged.

The Trafalgar decision turned out to be one of the few items of positive news during the day. Others included the successful placing by Smith New Court of 9½m shares in Welsh Water, the increased offer by Burmah for Foseco and two small bids in the construction sector.

But any benefit from these was limited by the lack of buying interest on the part of institutions. London traders remained idle in yet another day of low volumes in equities. Final turnover on Seaq screens was 473.4m. This was above average for recent weeks, but it included at least two programme trades accounting for 130m-150m of the volume.

While institutions in the main shunned equities, they were active in gilts and futures. Longer dated gilts continued upwards in anticipation of interest rate cuts in the medium term, while the Footsie futures contract was well traded. Analysts said that the lack of trade in the stock market put off institutions.

"It is hard to deal in volume without the share price moving against you," said Mr Paul Walton of James Capel. He added that Gulf tension meant the safety of gilts inclined funds against the risks of shares.

FINANCIAL TIMES STOCK INDICES

	Dec 4	Dec 3	Nov 30	Nov 29	Nov 28	Year Ago	1990 High	1990 Low	Since Compilation High	Since Compilation Low
Government Secs	82.58	82.56	82.58	82.34	81.90	83.02	84.20 (2/1)	74.13 (30/4)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	90.13	90.13	90.23	89.65	89.46	92.40	92.91 (8/1)	83.80 (30/4)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1681.6	1695.3	1682.8	1674.8	1686.2	1636.6	1968.3 (3/1)	1510.4 (24/9)	2008.6 (5/9/89)	49.4 (26/6/40)
Gold Mines	152.3	157.8	160.2	157.6	158.1	268.7	378.5 (8/2)	152.3 (4/12)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2146.3	2162.7	2149.4	2135.6	2144.3	2327.5	2463.7 (3/1)	1990.2 (28/9)	2463.7 (3/1/90)	986.9 (23/7/84)
FT-SE Eurotrack 100	974.06	973.55	958.80	950.93	951.24	-	1000.00 (26/10)	948.31 (27/11)	1000.00 (26/10/90)	948.31 (27/11/90)
Ord. Div. Yield	5.72	5.68	5.73	5.77	5.72	4.63				
Earning Yld %(full)	11.97	11.89	12.00	12.07	11.99	11.24				
P/E Ratio(Net)(☆)	10.09	10.15	10.07	10.01	10.08	10.77				
SEAQ Bargns 4.45pm	22,457	22,422	21,872	21,218	21,960	27,026				
Equity Turnover(£m)†	-	684.81	658.41	849.35	736.50	894.95				
Equity Bargains†	-	20,993	19,517	19,197	20,319	28,019				
Shares Traded (ml)†	-	286.0	283.8	341.5	324.6	390.0				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55, Basis 1000 FT-SE 100 31/12/83 & FT-SE Eurotrack 100 31/10/90. ☆ Nil 9.93

Ordinary Share Index, Hourly changes — Day's High 1693.1 — Day's Low 1677.7

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1688.0	1691.4	1688.4	1691.1	1688.4	1684.6	1684.6	1678.6	1679.3

FT-SE, Hourly changes — Day's High 2162.9 — Day's Low 2142.0

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2156.6	2160.9	2157.7	2161.9	2155.6	2150.1	2150.8	2144.2	2142.8

FT-SE Eurotrack 100, hourly changes — Day's High 974.06 — Day's Low 964.28

Open	10 am	11 am	12 pm	1 pm	2 pm	3 pm
969.81	969.15	970.36	970.43	970.03	968.96	N/A

GILT EDGED ACTIVITY

Indices*	Dec 3	Nov 30
Gilt Edged Bargains	108.5	150.0
5 – Day average	144.7	157.4

*SE Activity 1974.
†Excluding intra-market business & Overseas turnover.

London report and latest Share index: Tel. 0898 123001

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change
[illegible]			

Based on trading volume for retail Alpha securities dealt through the SEAQ system yesterday until 4.30pm.

Trafalgar dividend surprises

TRAFALGAR House, the UK construction, property and shipping major, silenced many market operators who had predicted a dividend cut by maintaining the final payment. This increased the total for the year to slightly more than that paid in 1989. The news was a magnet for income buyers, who moved quickly to buy stock of an FT-SE index constituent currently yielding around 14 per cent, the second highest among index constituents.

Heavy turnover of 10m developed in the shares, where sentiment recently has been dominated by conflicting views on the likely dividend payment. The price yesterday bounded to 192p before the speed of the advance slowed as short-term investors realised profits. Eventually Trafalgar House was slightly below the best, showing a gain of 14 on the day at 188p.

Analysts said attention would now be focused on 1991 prospects. Mr David Ireland at Hoare Govett commented that the outlook for the group still looks very tough, but its debt position is not too bad and the stock is a much better income play than before.

Busy trade in Gas

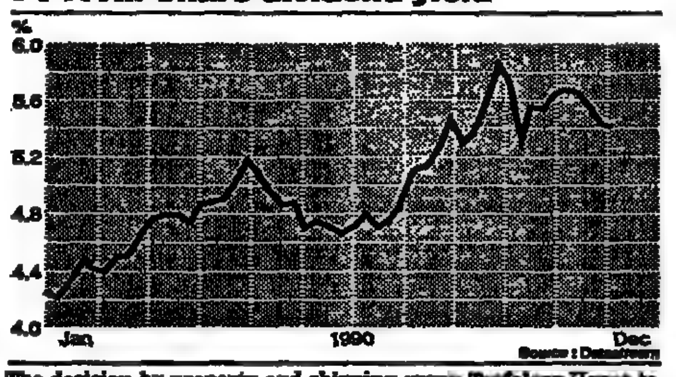
British Gas fell 5½ to 224½p on high turnover of 22m after Mr James McKinnon, director general of the Office of Gas Supply, said that by October 1993 it should give up a third of its share in the industrial gas market to competitors.

Initially there was some confusion as early reports suggested that British Gas would have to relinquish a third of all its UK markets. But it later emerged that Mr McKinnon was referring only to British Gas's industrial market — which accounts for 15 per cent of group profits.

Mr Steve Turner of Smith New Court said: "It has been known for some time that Mr McKinnon wanted to see increased competition, but his 30 per cent target was not (known)."

Analysts said they were unlikely to lower their profit forecasts as the effect of increased competition in the industrial market had already been factored into estimates. In addition, British Gas had yet to respond to Mr McKinnon's remarks, while profits and dividends were still expected to grow strongly over the next two years.

FT-A All-Share dividend yield



The decision by property and shipping group Trafalgar House to raise its dividend total, which surprised many market analysts, left chart followers still waiting for a decisive downturn in companies' dividend yields. The yield on companies in the FT-A All-Share Index remains just below September's eight-year peak.

Water placing

The water sector was boosted after 6.7 per cent of Welsh Water was eagerly taken in an institutional placing. Smith New Court found 34 institutional buyers for the 9.6m shares, which were sold at 268p, a discount of 12 to the opening price. The sale was believed to be on behalf of Barings Asset Management.

The offer was oversubscribed, which reflected the worry among some institutions that they could be underweight in utility stocks after the electricity flotation. Welsh Water closed 6 down at 274p.

As the market braces itself for results from Saatchi & Saatchi today, WPP's share price was hit by fresh worries about its high level of debt. The resurgence of nervousness about WPP in the wake of its profits warning two weeks ago could not be traced to any further negative news concerning the company. Analysts said investors were being cautious as disappointing results from Holmes & Marchant yesterday highlighted the difficulties in the sector, and Saatchi's results were not expected to be inspiring either.

An analyst said that "quite a lot of people got in expecting a bounce" in WPP after the profits warning. But when the bounce failed to materialise two weeks later, they started to worry about holding on to WPP ahead of Saatchi's results. WPP dropped 21 to 97p but Saatchi held steady with a rise of ½ to 37p.

The disastrous results of its main winter sale of impressionist paintings on Monday hit the share price of Christie's International, which fell 18 to 164p. With 75 per cent left unsold in value terms, this was the worst sale that Christies has seen in many years and follows a disappointing sale in New York. Christie's, which was forced to lower its estimated sales from the auction from £50m to £30m, in the event ended with only £10m and was downgraded by Hoare Govett, which expects profits for the year to come down to £50m from a previously forecast £55m. Sotheby's, which faces a similarly depressed market, however, managed a strong gain of 25 to 588p ahead of its sale last night.

Burmah Castrol moved nearer to acquiring chemical group Foseco by raising the terms of its offer to 300p a share. It also raided the market for stock at the same level, picking up some 6.15 per cent of the Foseco equity, which gave Burmah an overall shareholding of 21.75 per cent.

The increased bid was quickly rejected by the board of Foseco. Turnover in the latter's shares expanded to 11m as they rose 18 to 296p. Burmah improved 6 to 477p, reflecting the increased chance of it winning the day, said traders.

Wates City of London Properties responded to the joint venture with Sumitomo Corporation (UK) to develop the Vintners' Place riverside site in the City of London. Wates shares gained 8 to 143p, while the trend otherwise in the property sector was lower.

After Monday's burst of enthusiasm, a greater balance returned to the property market and most leaders gave back part of their gains. MEPC closed 6 down at 516p and Land Securities 5 lower at 528p.

Pilkington bucked the wider market on speculation that BTR could once again be contemplating a predatory move. The appointment of a new BTR chief executive, who is seen as being acquisitive, evidently aroused these hopes. Pilkington shares moved up 4 to 159p ahead of the interim results, due tomorrow, but those of BTR fell 12 to 326p.

A setback of 9 to 113p in shares of Allied Colloids was more a reflection of the board's caution about the "increasingly adverse international economic outlook" than the interim profits which, as expected, were flat at £19.3m.

Renewed concern about the deteriorating environment for the US hotel industry unsettled the Bass share price, which closed 6 down at 995p ahead of today's interim results. It is feared that the possibility of war in the Gulf, combined with a recession in the US, are further clouding the outlook for the North American hotel industry, where rate cuts and failures have already been reported. "It is not easy to paint a rosy scenario," commented Mr Mike McCarthy at Smith New Court.

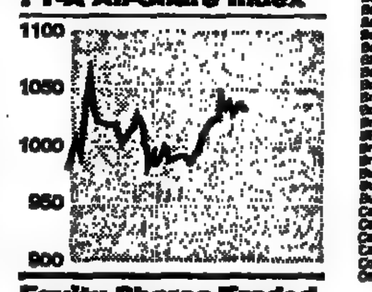
Analysts, however, were quick to point out that brewing and the related retailing business for UK brewers in their home market have proved relatively resilient in the face of spreading recessionary fears. In addition, the Holiday Inns franchising business has "very, very strong defensive qualities", observed Mr Graham Eadie at County NatWest.

Other brewers held steady, with Grand Metropolitan unchanged at 602p ahead of full year results due tomorrow. Guinness managed a moderate rise of 3 to 743p after announcing plans for a £125m Eurobond issue.

Trading announcements sent miscellaneous industrial issues in opposite directions. Siebe enjoyed a change of fortune after reporting increased interim profits of £85.3m (£80.8m) and a higher dividend. The shares, which have weakened considerably from 518p on doubts over the wisdom of the $656m acquisition earlier this year, of Foxboro, of the US, recovered 7 to 305p.

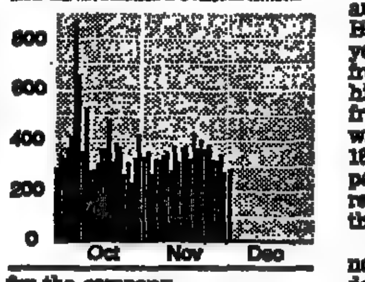
Although the figures included only one month's trading from Foxboro, Siebe said it was getting to grips with the acquisition. Analysts appeared to be in no haste to revise full year profit forecasts, preferring to await developments in the North American and UK economies which Siebe acknowledge as being difficult for the company.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million) Excluding: Intra-market business & Overseas turnover



Norcros confirmed the market's worst fears with sharply reduced mid-term profits. The dividend was cut, but not by the amount expected by some analysts. Mr Richard Rae of Hoare Govett lowered his full year profits estimate to £26m from £30m but upward revised his dividend forecast to 10p from 8p a share, compared with last year's distribution of 18p. This provided some support for the shares, which reverted from an initial 115p to the overnight position of 118p.

GEC surprised the market by not increasing its interim dividend of 2.55p, causing its shares to fall 8 to 177p. The decline in half-year profits to £342m from £357m compared with estimates of around £350m. Analysts said a 10 per cent drop in earnings per share for the rest of the year was likely. Estimates for full year profits were likely to be scaled down from around £860m to below £850m.

USM-listed Serif Cowells jumped 17 to 43p on news of negotiations which could result in a management buy-out.

Textile company Leeds injected some encouragement to the sector by disclosing both higher profits and dividend coupled with a positive statement on prospects. The thinly traded shares responded with an advance of 10 to 188p.

Better than expected full year results gave a boost to Huntingdon, which saw its share price climb 30 to 273p. The market was pleasantly surprised by profits of £19m for 1990, which was above analysts' forecasts of a little over £18m, said Mr Ian White at Kleinwort Benson. Kleinwort has upgraded its forecast for Huntingdon and now expects profits of £22.5m for 1991.

■ Other Market statistics, including the FT-Actuaries share index, Page 23

NEW HIGHS AND LOWS FOR 1990

NEW HIGHS (15).
CORPORATION LOANS (2) BUILDINGS (3) CHEMICALS (1) ELECTRICALS (3) FOODS (1) INDUSTRIALS (2) Airsprung Furniture, Amer Free A, TRUSTS (5).
NEW LOWS (86).
AMERICANS (1) BANKS (2) BREWERS (1) BUILDINGS (7) STORES (3) ELECTRICALS (18) ENGINEERING (9) HOTELS (1) INDUSTRIALS (13) BLP, Barry Wehmiller, Christies Intl., Comac, Cresta, Elan, Harding, Hewitt (J), JS Pathology, Melville, Reed Executive, Tubular Edgington, Whitecroft. LEISURE (4) MOTORS (2) PAPERS (5) PROPERTY (2) TEXTILES (1) TRANSPORT (3) TRUSTS (18) OILS (3) OVERSEAS TRADERS (1) MINES (11) THIRD MARKET (1).

APPOINTMENTS

Redland top post

Mr Robert Napier *(pictured)*, managing director of REDLAND, will succeed Sir Colin Corness as chief executive from the annual meeting on May 23. Sir Colin remains chairman and Mr Napier continues as managing director.

■ COMMERCIAL UNION has appointed Mr C.A.C.M. Schrauwers as a UK divisional director from March 1. He joins from Coopers & Lybrand Deloitte where he is the partner responsible for insurance consulting.

■ GARBAN HOLDINGS, which is responsible for MAI's wholesale securities business in London, has appointed Mr Gerald Wilton as chairman following the resignation of Mr Stephen Raven. Mr Charles Pendred becomes chief executive; Mr Pat Turnbull becomes director, equities; Mr Steve Thompson becomes director, gilts; Mr Brian Modlock becomes director, Eurobonds; and Mr Edward Bowen becomes settlements director. Mr Raven becomes consultant to the company and a non-executive director of Garban Equities.

■ Mr Denis Filer, director general of the Engineering Council, is joining the board of ADWEST GROUP as a non-executive director from January 1.

■ Mr Ian D. Myers has been elected chairman of PAINEWEBBER INTERNATIONAL (UK). He has been with the company since 1978.

■ Mr Christopher Barrett, assistant company secretary, has been promoted to company secretary of GREAT PORTLAND ESTATES from December 17 when Mr Norman Ford retires. Mr Ford will join the board on February 1 as a non-executive director.

■ Mr Stuart Hollander has been appointed a non-executive director of LAMBERT HOWARTH GROUP. He is chairman of J. & N. Readymades, and a director of Aitch Holdings and Sussman Holdings.

Joining board of GEC

■ THE GENERAL COMPANY has appointed Dr Anthony O'Reilly to the board. He is chairman, president and chief executive officer of H.J. Heinz Company in the US. Dr O'Reilly is also chairman of Fitzwilton; chairman of Independent Newspapers; and chairman of Atlantic Resources; all based in Ireland. He was born in Dublin.

■ LLOYDS ABBEY LIFE has appointed Mr James Joll as a non-executive director. He is finance director of Pearson.

■ JOHNSON BROTHERS (CLEANERS) has appointed Mr John Blud as retail sales director, and Mr Richard Valentine becomes retail technical director.

■ CAPEL-CURE MYERS CAPITAL MANAGEMENT has appointed Mr Roddy Buchanan as divisional director of newly-formed central division, encompassing offices in Birmingham, Bristol, Cardiff and Swansea. This new post follows the acquisition of the National Investment Group. Mr Buchanan has been a director since 1988, and was deputy head of private client operations.

■ CAMDEN MOTORS, part of the Barclays Bank Group, has appointed Mr Paul Dunkley as managing director. He was deputy managing director, and succeeds Mr John Yardley who has become chairman of Camden Motors and managing director of Mercantile Services, the Barclays subsidiary which owns Camden.

■ Mr Christopher Ross has been appointed managing director of RICARDO CONSULTING ENGINEERS, automotive division of Ricardo International. He was group managing director of Molins.

ERNST & YOUNG CORPORATE FINANCE has appointed Mr Henry Mutkin *(pictured)* as a consultant director. He was a service director of the Royal Bank of Canada's merchant banking operations in London. He continues as a non-executive director of the Royal Automobile Club, and Arthur Lee & Sons.

LONDON SHARE SERVICE

BRITISH FUNDS

1990 High	1990 Low	Stock	Price £	+ or –	Yield Int.	Yield Red.
"Shorts" (Lives up to Five Years)						
99¼	97⅞	Treas 11¾pc 1991	99[illegible]		11.79	13.51
[illegible]						
Five to Fifteen Years						
[illegible]						
Over Fifteen Years						
[illegible]						
Undated						
[illegible]						

BRITISH FUNDS—Contd

1990 High	1990 Low	Stock	Price £	+ or –	Yield (1)	Yield (2)
Index-Linked (b)						
126½	110¾	I.L. 2pc '92 (97.8)	126½	+¼	2.00	4.01
116	103¼	Do. 2 '94 (102.9)	115¼		3.06	3.81
171	150½	Do. 2pc '96 (67.9)	170¾		3.24	3.71
139	123½	Do. 2½pc '01 (78.3)	138¾	+¼	3.87	4.15
[illegible]						

INT. BANK AND O'SEAS

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

AMERICANS—Contd

1990 High	1990 Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
21¾	5¾	Chase Manhattan $12½	[illegible]		$1.20	–	21.6
19¼	524p	Chem. Banking Corpn.	[illegible]	+39	$1.00	–	8.1
12½	5⅞	Chrysler $6¼	[illegible]		$1.20	–	10.1
18¼	5⅞	Citicorp $1	[illegible]		$2.46	–	16.1
40[illegible]	27¾	Colgate-Palmolive $1	[illegible]		$1.80	–	2.4
12¼	386p	Cont'l Bank Corp $4	475p	+6	$1.00	–	10.7
258p	54p	Corporate Data Sccs.	[illegible]		–	–	–
22¾	10¾	Dana Corp. $1	[illegible]		$1.60	–	5.8
768p	178p	Data General	247p	+16	–	–	–
29¼	18¼	Dun & Bradstreet $1	[illegible]		$2.12	–	5.3
37¼	21	Exxon Corpn. 50c	[illegible]	+1	$2.20	–	4.5
[illegible]							

CANADIANS

[illegible]

Continued on next page

LONDON SHARE SERVICE

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BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ELECTRICALS – Contd

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd.

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

LONDON SHARE SERVICE

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MOTORS, AIRCRAFT TRADES — Contd

Components

1990 High	Low	Stock	Price	+ or –	Div Net	Cvr	Yld Gr's	P/E
458	420	Abbey Panels	453	.....	3.5	10.8	1.0	12.0
225	135	Airflow Streamlines	148	.....	6.0	3.0	5.7	7.8
190	145	Bostrom 5p	155	.....	15.75	3.1	4.9	7.0
266	160	Dowty 50p	164	+2	9.0	2.7	7.3	7.9
239	115	FR Group	115	–3	6.37	3.1	7.4	5.9
135	55	Kwik-Fit Hldgs. 10p	74	–1	42.4	2.3	4.3	13.7
174	102	Lucas Inds.	129	+½	7.0	2.9	7.2	6.3
44	14	Do. Warrants	20½	–1	–	–	–	–
80	55	Mid-States 10p	55	.....	ς0.75	–	1.8	46.1

Garages and Distributors

1990 High	Low	Stock	Price	+ or –	Div Net	Cvr	Yld Gr's	P/E
28	16	Alexanders 10p	16	.....	1.0	5.0	8.3	4.8
135	78	Appleyard 10p	88	–2	17.8	2.4	11.8	4.1
110	55	Blatchley Motor 20p	60	.....	17.5	1.9	16.7	4.3
568	390	Caffyns 50p	400	–5	11.5	0.3	3.8	–
121	91	Central Motor Auctns.	91	.....	13.25	3.2	4.8	8.7
61	23	Cook (D.C.) Hldgs.	25	+2	1.0	5.3	5.3	4.7
89	33	Cowie (T.) 5p	51	–2	4.2	1.5	11.0	7.1
95	56	Dagenham Motors 10p	76	.....	15.25	2.8	9.2	5.3
98	75	Davenport Vernon 10p	78	.....	3.5	3.6	6.0	5.4
247	163	Evans Halshaw	184	.....	11.25	2.4	8.1	6.8
113	68	Gates (F.G.)	74	.....	2.75	1.9	4.8	14.3
161	25	Gowrings 10p	32	.....	5.63	1.0	22.7	5.7
81	44	Jacks Wm.	46	.....	12.0	1.0	‡	21.6
118	48	Jessups	49	–2	7.0	♦	19.0	♦
297	162	Lex Service	187	.....	15.3	1.9	10.9	6.6
147	50	Lookers	77	.....	6.2	3.9	10.7	3.1
43	21	Malaya Group 10p	25	.....	2.0	♦	10.7	♦
133	85	Pendragon	92	.....	21.8	–	2.6	5.9

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

PROPERTY — Contd

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRANSPORT

INVESTMENT TRUST

INVESTMENT TRUST — Contd

INVESTMENT TRUST — Contd

FINANCE, LAND, ETC

WATER

OIL AND GAS

OIL AND GAS — Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES — Contd

Tins

Miscellaneous

THIRD MARKET

NOTES

REGIONAL & IRISH STOCKS

IRISH

TRADITIONAL OPTIONS

3-month call rates

Industrials

Property

Oils

Mines

FT MANAGED FUNDS SERVICE

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AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngs (1000)H
80 Holdenhurst Rd, Bournemouth 0202 717373

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or −	Yield Grs
High Income						
American Income	6	40.83	41.22	43.85	+0.37	6.25
Gilts & Fixed Int	6	108.6	108.6xd	115.2	.....	[illegible]
Mega Inc Equity	6	117.4	120.8	128.5	[illegible]	[illegible]
Worldwide Bond	6	191.2	191.2xd	202.7	+0.2	7.40
Capital Growth						
American Growth	6	152.6	152.6	163.3	+1.2	1.10
Asian Pacific	6	94.38	96.55	102.5	+0.9	0.20
Assets & Earnings	6	143.9	147.5xd	156.9	+0.2	3.40
Capital Reserve Acc	0	99.73	99.73	99.87	−0.06	7.15
Capital Reserve Inc	0	63.63	63.63	63.94	−0.03	7.15
Commodity & Energy	6	74.07	74.07	79.21	+0.25	1.38
1992 Enterprise	6	54.74	56.10	59.68	−0.05	3.57
Euro Capital Acc	6	83.40	83.40	89.19	−0.10	1.34
Euro Capital Inc	6	80.08	80.08	85.64	−0.10	1.34
General	6	150.3	150.3xd	160.7	−0.10	3.11
Japan	6	78.80	78.80	84.27	−1.36	0.00
Mangertrust	6	75.39	75.39	80.63	−0.06	3.76
UK Growth Acc	6	135.4	135.4	144.8		3.04
UK Growth Dist	6	87.56	87.56	93.64	+0.03	3.04
US Emerging Cos	6	42.30	42.30	45.24	+0.32	0.00
Income & Growth	6	262.0	262.0xd	280.2	+0.5	3.96
Ethical	6	40.74	41.91	44.58	+0.01	2.55
International	6	50.34	51.07	54.32	−0.27	0.92
Dividend & Growth	6	41.43	43.03	45.77	−0.03	4.30
Global Gwth & Sec	6	46.91	47.25	50.26	−0.03	1.90

Abtrust Management Ltd (1200)H
10 Queens Terrace, Aberdeen AB9 1QJ 0800 833580

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or −	Yield Grs
Amer Inc & Growth	5¼	24.28	24.28	25.76	−0.38	3.06
Cash	—	50.02	50.02xd	50.02	+0.01	13.67
European	5¼	67.31	67.31	71.29	−0.10	0.00
European Income	5¼	68.90	68.90xd	73.07	−0.01	1.70

[illegible]

Mayflower Management Co Ltd (1200)F
PO Box 2##, Sevenoaks, Kent [illegible] 081-663 3121

[illegible]

Medical Investments Ltd (1100)F
94 White Ladies Rd Clifton Bristol [illegible]

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or −	Yield Grs
Health Fund	5¼	45.9x	45.9x	48.11	[illegible]	[illegible]

Mercury Fund Managers Ltd (1000)H
33 King William St, EC4R 9AS 071-280 2800

[illegible]

National Provident Inv Mngs Ltd (1400)H
48 Gracechurch St, EC3P 3HH 071-623 4200

[illegible]

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (▼) - 0001 to 1100 hours; (◆) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point, a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071 – 379 – 0444.

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Target Trust Mngrs Ltd (1600)F
Target Hse, Gatehouse Rd, Aylesbury, Bucks.
Admin: 0296 394000 Dealing: 0296 392146

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
American Eagle	5	60.14	60.14	64.22	+0.16	1.20
Australia	5	5.266	5.266	5.638	-.025	4.73
Equity	5	143.6	143.6	154.3	-1.2	4.99
Euro Spec Sits	5	95.82	95.82	102.9	+0.5	0.47
Financial	5	25.18	25.18	27.11	-0.40	5.51
Global Opps Inc	5	55.99	55.99	60.18	-0.25	0.00
Global Opps Acc	5	57.20	57.20	61.48	-0.26	0.00
Gold & Gen Inc	5	34.46	34.46	37.07	-0.35	1.08
Gold & Gen Acc	5	64.42	64.42	69.31	-0.66	1.08
Income	5	87.08	87.08	93.76	-0.99	6.83
Japan & General	5	103.2	103.2	110.9	-2.2	0.00
Preference Share	5	17.57	17.77	19.17		13.84
UK Capital	5	78.13	78.13	84.02	-0.67	4.16
World Income	5	53.65	53.65	57.70	-0.30	6.10
Worldwide Capital	5	146.5	146.5	157.8	-1.0	3.46

Templeton Unit Trust Managers Ltd (1200)F
Ashell Crescent, Edinburgh EH3 8HA 031-228 3932

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Global Growth Acc	6	92.71	93.27	99.76	+0.51	3.58
Global Growth Inc	6	89.07	89.61	95.84	+0.48	3.58
Global Balanced Acc	6	94.70	94.99	101.59	+0.46	4.57
Global Balanced Inc	6	89.39	88.66	94.82	+0.64	4.57
Value Tst Acc	6½	69.12	70.03	74.89	+0.11	4.49
Value Tst Inc	6½	66.06	66.92	71.57	+0.10	4.40
Intl Pen & Ch'ties Inc	3	85.08	86.23	90.53		3.95
Intl Pen & Ch'ties Acc	3	82.10	83.21	87.36		3.95

Thornhill Unit Trust Managers Ltd (1200)F
28 St John's Sq, London EC1M 4AE 071-251 6767

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Capital	5	46.90	47.16	50.17		
Overseas	5	39.23	39.43	41.94		
(Accum Units)	5	39.23	39.43	41.94		

Thornton Unit Managers Ltd (1000)F
33 Cavendish Sq., London W1M 0DB 071-493 7262
Dealing 071-493 8545

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
American Opps	5	42.58	42.58	45.43	+0.05	0.25
(Accum Units)	5	43.82	43.82	46.73	+0.08	0.25
Cash	0	51.33	51.33	51.33	+0.02	14.08
Accum Units	0	51.33	51.33	51.33	+0.02	14.00
European Opps	5	55.92	55.92	59.55	+1.02	0.00
(Accum Units)	5	56.23	56.23	59.87	+1.02	0.00
Far Eastern Opps	5	95.21	95.37	101.72	-1.00	0.00
(Accum Units)	5	95.82	95.98	102.37	-1.00	0.00
Golden Opps	5	25.01	25.01	26.62	-0.04	0.00
(Accum Units)	5	25.73	25.73	27.38	-0.04	0.00

Murray Johnstone UT Mngmt
Murray Exempt Funds

	Bid Price	Offer Price	+ or -	Yield Gr's
Amer Expt Dec 5	38.9	40.4	+2.20	2.67
Euro Expt Dec 5	47.2	49.5	+1.40	2.45
Fixed Int Ex Dec 5	43.6	44.7	-2.00	10.78
Japan Expt Dec 5	36.0	37.8	-3.40	0.71
Managed Ex Nov 29	38.4	39.9		4.93
SE Asia Expt Dec 5	54.5	57.2	+0.40	4.28
Sm Cos Expt Dec 5	28.1	29.5	-0.10	6.09
UK Eqty Ex Dec 5	36.2	38.0	+0.10	4.39

Phillips & Drew Fund Management Ltd

	Bid Price	Offer Price	+ or -	Yield Gr's
Small Co's Nov 6	599.8	632.5		5.89
Do Accum	666.0	703.2		5.89
Intl Expt Nov 28	142.6	144.8		3.35
UK Index Nov 6	960.6	982.0		6.06
Do Accum	1016	1037		6.06
Convert'ble Nov 30	79.70	82.22		8.54
Wellcome Int Index Nov 26	636.2	644.8		2.28
Do Accum	636.2	644.8		2.28
Japan Index Nov 26	520.1	527.7		0.54
Do Accum	521.1	528.6		0.54
USA Index Nov 26	728.9	733.7		3.51
Do Accum	739.2	743.9		3.51
European UK Index Nov 26	773.2	782.4		4.0
Do Accum	795.2	804.6		4.0
Pacific ex Jap Index Nov 26	715.9	735.9		5.40
Do Accum	729.4	749.7		5.40
Managed Exempt Nov 28	90.15	91.84		3.72
American Exempt Nov 28	98.28	99.43		4.41
European Exempt Nov 28	100.5	101.8		3.5
Japan Exempt Nov 28	98.44	99.67		0.56
Pacific Basin Nov 28	95.70	97.86		4.98

NM Rothschild Asset Management Ltd

	Bid Price	Offer Price	+ or -	Yield Gr's
NC Managed	53.2	56.6	-0.1	4.28
NC Property	174.3	191.2		

J. Rothschild Fund Managers Ltd

	Bid Price	Offer Price	+ or -	Yield Gr's
Intl Exempt Accum	119.6	120.4		5.09

Stewart Ivory & Co Ltd

	Bid Price	Offer Price	+ or -	Yield Gr's
Sales PPP Oct 12	224.9	236.2		

Closed to new business.

Thornton Unit Managers Ltd

	Bid Price	Offer Price	+ or -	Yield Gr's
Managed Exempt Dec 3	82.75	86.98		4.76
(Accum Units)	85.02	89.34		4.76

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

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National Provident Institution
48 Gracechurch St, London EC3P 3HH 071-623 4200

	Bid Price	Offer Price	+ or −	Yield Gross
Managed	307 1	323.3	−0.6	−
UK Equity	386 8	407 2	−0 9	−
Overseas Eq.	287 2	302.4	−0.7	−
Americas	215.3	226 7	+1.5	−
Far East	285.3	300.4	−2.6	−
Property	193.3	203.5	+0 2	−
Fixed Int	240.1	252.8	−0.5	−
Indexed Gilt	149.4	157.3	−0.3	−
Deposit	173.2	182.4	+0.1	−
Pension Fund (Accum Units)				
Managed	425 6	448.0	−0 6	−
UK Equity	494 5	520 6	−1.4	−
Overseas Eq.	470.0	494 8	+0 1	−
American	283 1	298.1	+1.7	−
Far East	477.2	502 4	−4 9	−
Property	240 4	253 1	−0.2	−
Fixed Int.	292.7	308 2	−0.4	−
Indexed Gilt	164.3	173 0	−0.3	−
Deposit	238.8	251.4	+0.1	−
NPI Pensions Management Ltd				
Managed Fund	941.0	957.8	—	−

Prices Dec 3 Next dealing Jan 3

Norwich Union Asset Management Ltd
PO Box 140, Norwich NR3 1PP 0603 686787

	Bid Price	Offer Price	+ or −	Yield Gross
NUAM Funds				
Managed Fund	62.1	65.3	−0.2	−
Stock Market Mngd Fund	58.3	61 4	−0 1	−
Equity Fund	67 2	70.7	−0 4	−
International Fund	50 8	53.5	+0.2	−
European Fund	61.2	64.4	—	−
North American Fund	50.3	53.0	+0.9	−
Pacific Fund	49 0	51.6	−0.4	−
Property Fund	84.6	89 0	—	−
Fixed Interest Fund	54.6	57.5	−0 1	−
Index Linked Sec Fund	60 6	63 8	−0.2	−
Deposit Fund	66.5	70.0	—	−
NUAM Retirement Plans				
Mixed Fund	67 6	71 2	−0.1	−
UK Ordinary Share Fd.	77 7	81.8	−0.3	−
International Fund	54 8	57 7	+0.2	−
Property Fund	83.2	87.6	—	−
Fixed Interest Fund	65 4	68 8	−0.2	−

Providence Capital Life Assc. Co Ltd – Contd.

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

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IRELAND (SIB RECOGNISED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar hit by Fed reserve move

THE DOLLAR weakened on news that the Federal Reserve is to cut some reserve requirements of US banks. The Fed said these requirements – on non-personal time deposits and Eurocurrency liabilities – are slowing growth and beginning to exert a contractionary influence on the economy.

In its statement the Fed remarked that "lower reserve requirements at any given level of money market interest rates will reduce costs to depository institutions, providing added incentive to lend to creditworthy borrowers, thus countering, to some extent, the recent tightening in credit terms".

Dealers said the move was an indirect form of easier monetary policy. It will make corporate borrowing cheaper without need for a lower Federal funds rate. In New York the Fed did not intervene in the banking system, when Fed funds were trading at the assumed target of 7¼ per cent.

Initial reaction to the cut in reserve requirements took the US currency down to DM1.4980, but it found support at that level, rallying above DM1.5000 in late European trading. The dollar closed in London at DM1.5030, against DM1.5135 on Monday. It fell to Y134.00 from Y134.40; to FFr5.0875 from FFr5.1150; and to SFr1.2840 from SFr1.2925. The dollar's index eased 0.1 to 61.3.

Sterling improved against the dollar but lost ground within the European Monetary System. The EMS weakness reflected increased demand for the D-Mark after Germany's election result at the week-end – giving power to Chancellor Helmut Kohl's Christian Democrat-led coalition – and the effective easing of US monetary policy at a time when German rates are very firm.

A drop of $85m in November UK official reserves had no effect on the pound, but dealers noted that the fall was about half the level of market estimates, suggesting that the Bank of England had not heavily defended sterling last month.

The pound rose ¾ of a cent to $1.9265 and to Y258.25 from Y258.00, but fell to DM2.8950 from DM2.9050; to FFr9.8000 from FFr9.8150; and to SFr2.4725 from SFr2.4800. Its index shed 0.1 to 93.6. Sterling gained a further 40 points in New York to end at $1.9305.

Sterling remained the weakest member of the EMS exchange rate mechanism, with the three currencies supported by an upward trend in interest rates – the D-Mark, Dutch guilder and Belgian franc – holding firm below the top-placed Spanish peseta.

Belgium's central bank raised the rate on four-month paper yesterday, as dealers commented that the policy of linking the Belgian franc closely to the D-Mark may be put to the test if present trends continue. Tight credit conditions in Frankfurt are lending support to the D-Mark, amid suggestions that the Bundesbank is not unhappy to see rates move higher.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Dec 4	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Spanish Peseta	133.631	130.351	-2.45	3.88	43
D-Mark	2.05586	2.04773	-0.40	1.73	27
Dutch Guilder	2.31643	2.30988	-0.28	1.61	15
Belgian Franc	42.4032	42.3518	-0.12	1.45	7
Irish Punt	0.767417	0.767554	0.02	1.31	1
Italian Lira	1538.24	1539.85	0.10	1.22	-4
Danish Krone	7.84195	7.86436	0.29	1.04	-12
French Franc	6.89509	6.92268	0.40	0.92	-20
Sterling	0.696904	0.706142	1.33	0.00	-85

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
Adjustment calculated by Financial Times.

£ IN NEW YORK

[illegible]

Forward premiums and discounts apply to the US dollar

STERLING INDEX

[illegible]

CURRENCY MOVEMENTS

[illegible]

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100).

CURRENCY RATES

[illegible]

OTHER CURRENCIES

	£	$
Iran	126.00*	63.50*
Korea(Sth)	1365.80 - 1377.65	709.60 - 715.20
Kuwait	N/A	N/A
Luxembourg	59.75 - 59.85	31.00 - 31.10
Malaysia	5.2040 - 5.2165	2.6985 - 2.7005
Mexico	5665.95 - 5688.15	2938.00 - 2948.00
N.Zealand	3.1600 - 3.1650	1.6380 - 1.6410
Saudi Ar	7.1605 - 7.2020	3.7490 - 3.7510
Singapore	3.3140 - 3.3215	1.7210 - 1.7230
S.Af (Cm)	4.8860 - 4.8985	2.5310 - 2.5340
S.Af (Fn)	6.6885 - 6.7245	3.4720 - 3.4905
Taiwan	52.50 - 52.60	27.25 - 27.30
U.A.E.	7.0135 - 7.0540	3.6720 - 3.6740

* Selling rate

POUND SPOT - FORWARD AGAINST THE POUND

Dec 4	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.9240 - 1.9425	1.9260 - 1.9270	0.94-0.92cpm	5.79	2.47-2.44pm	5.10
Canada	2.2365 - 2.2650	2.2415 - 2.2425	0.37-0.33cpm	1.87	0.63-0.56pm	1.06
Netherlands	3.2610 - 3.2935	3.2625 - 3.2725	1⅜-1¼cpm	4.82	3⅞-3⅝pm	3.98
Belgium	59.70 - 60.35	59.75 - 59.85	29-26cpm	5.52	66-59pm	4.18
Denmark	11.0900 - 11.1960	11.1100 - 11.1200	4-3⅜orepm	4.12	8¾-8pm	3.01
Ireland	1.0780 - 1.0990	1.0850 - 1.0860	0.26-0.20cpm	2.54	0.60-0.47pm	1.97

[illegible]

Commercial rates taken towards the end of London trading. Six-month forward dollar 4.48-4.43cpm. 12 Month 7.75-7.65cpm

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

[illegible]

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EURO-CURRENCY INTEREST RATES

[illegible]

Long term Eurodollars: two years; three years; four years; five years nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Dec 4	£	$	DM	Yen	F Fr.	S Fr.
DM	0.345	0.665	1	89.19	3.385	[illegible]
YEN	3.873	7.459	11.21	1000.	37.96	[illegible]
F Fr.	1.020	1.965	2.954	263.5	10.	[illegible]
S Fr.	0.405	0.779	1.171	104.4	3.964	[illegible]
H Fl.	0.306	0.590	0.886	79.03	3.000	[illegible]
Lira	0.459	0.884	1.329	118.5	4.500	[illegible]
C $	0.446	0.859	1.291	115.2	4.371	[illegible]
B Fr.	1.672	3.221	4.841	431.8	16.39	[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

[illegible]

LONDON (LIFFE)

[illegible]

CHICAGO

[illegible]

THREE-MONTH PIBOR FUTURES (MATIF) (Paris interbank offered rate)

	Open	Close	Change	High	Low	Yield	Open int.
December	89.99	89.86	-0.12	89.95	89.86	10.14	16,011
March	90.10	89.94	-0.17	90.10	89.94	10.06	16,073
June	90.18	89.95	-0.18	90.12	89.95	10.05	2,397
September	90.12	90.08	-0.04	90.10	90.07	10.02	1,401

Estimated volume 10,287 Total Open interest 35,882

CAC-40 FUTURES (MATIF) Stock index

	Open	Close	Change	High	Low	Open int.
December	1650.0	1667.0	+6.0	1668.0	1647.0	7,268
January	1660.0	1665.0	-4.0	1665.0	1660.0	347
February	1670.0	1670.0	-7.0	1670.0	1670.0	210
March	-	-	-	-	-	0

Estimated volume 3,785 Total Open interest 7,825

BASE LENDING RATES

	%		%		%
ABN Bank	14	Coutts & Co	14	NatWestminster	14
Adam & Company	14	Cyprus Popular Bk	14	Northern Bank Ltd	14
Allied Trust Bank	14	Dunbar Bank PLC	14	Nykredit Mortgage Bank	14½
AIB Bank	14	Duncan Lawrie	14	Provincial Bank PLC	15
● Henry Ansbacher	14	Equatorial Bank plc	14	Roxburghe Bank Ltd.	14½
Associates Cap Corp	15½	Exeter Trust Ltd	14½	Royal Bk of Scotland	14
● B & C Merchant Bank	14	Financial & Gen. Bank	14	Royal Trust Bank	14
Bank of Baroda	14	First National Bank Plc.	16	● Smith & Williamson Secs.	14
Banco Bilbao Vizcaya	14	● Robert Fleming & Co.	14	Standard Chartered	14
Bank Credit & Comm	14	Robert Fraser & Ptnrs.	14½	TSB	14
Bank of Cyprus	14	Girobank	14	Unibank plc	14
Bank of Ireland	14	● Guinness Mahon	14	● United Bk of Kuwait	14
Bank of India	14	HFC Bank plc	14	United Mizrahi Bank	14
Bank of Scotland	14	● Hambros Bank	14	Unity Trust Bank Plc	14
Banque Belge Ltd	14	Hampshire Trust Plc	14½	Western Trust	14
Barclays Bank	14	Heritable & Gen Inv Bnk.	14	Westpac Bank Corp.	14
Benchmark Bank	14	● Hill Samuel	14	Whiteaway Laidlaw	14
Brit Bk of Mid East	14	C. Hoare & Co.	14	Yorkshire Bank	14
● Brown Shipley	14	Hongkong & Shangh	14		
CL Bank Nederland	14	● Leopold Joseph & Sons	14		
● Charterhouse Bank	14	Lloyds Bank	14		
Citibank NA	14	Meghraj Bank Ltd	14		
City Merchants Bank	14	McDonnell Douglas Bnk.	14		
Clydesdale Bank	14	Midland Bank	14		
Comm. Bk. of London Plc	14	Mount Banking	14		
Co-operative Bank	*14	Nat Bk. of Kuwait	15		

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MONEY MARKETS

London rates firm

INTEREST RATES rose in London yesterday as funds drained from the money market to meet applications for shares in the about to be privatised UK electricity industry. A weakening of sterling and an upward trend in German interest rates also contributed to the nervous tone on cash and futures markets.

Three-month sterling interbank rose to 13$\frac{11}{16}$-13$\frac{9}{16}$ per cent from 13$\frac{9}{16}$-13½, while 12-month money firmed to 12$\frac{7}{16}$-12$\frac{5}{16}$ per cent from 12¼-12⅛.

UK clearing bank base lending rate
14 per cent
from October 8, 1990

December short sterling futures opened weaker on Liffe at 86.67. The contract fell through technical support at 86.66 to a low of 86.64 and closed at 86.65 compared with 86.72 previously.

Day-to-day credit was in fairly comfortable supply on the money market. The Bank of England initially forecast a shortage of £200m, but revised this to £250m at noon and to £350m in the afternoon.

The authorities did not operate in the market before lunch, but in the afternoon bought £201m bank bills in band 1 at 13⅞ per cent.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £265m. This outweighed exchequer transactions adding £35m to liquidity, a fall in the note circulation of £5m and bank balances above target of £25m.

In Frankfurt credit conditions remained tight, prompting action by the Bundesbank to add liquidity via currency swaps. Tight conditions have been reflected in the high level of Lombard borrowings by banks. End of month pressure pushed this up to DM13.2bn last Friday, but even on Monday the level was relatively high at DM7.2bn. Call money rose to 8.50 from 8.45 per cent yesterday.

The Bundesbank has an opportunity today to ease the pressure at a two-tranche securities repurchase agreement tender. Banks have been offered liquidity via 30-day and 58-day pacts at variable bid rates. This is the first time the central bank has offered a one-month variable rate tender since it raised the Lombard rate in November.

The move prompted suggestions that the Bundesbank wishes to see a rise but that a fixed tender above 8 per cent may have been interpreted as a tightening of monetary policy. By asking bidders to set the rate the authorities can claim that market pressures are forcing rates higher.

FT LONDON INTERBANK FIXING

[illegible]

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (4pm) — Treasury Bills and Bonds

[illegible]

LONDON MONEY RATES

[illegible]

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

JOTTER PAD

CROSSWORD

No.7,411 Set by HIGHLANDER

ACROSS
1 Butcher's service area (8)
5 Constitutional way is on official record (6)
9 Group of flowers is thus looked after in rotation (8)
10 Report of gold found in Wales (6)
12 Artillery round plus fog and freezing conditions bring end to fighting (9)
13 Because it is from that time (5)
14 Flower came out of bed (4)
16 Daughter wakens up from sound sleeps (7)
19 Reported recently in colour (7)
21 Head of household swallowed animosity (4)
24 King is in physical pain from car accident (5)
25 According to speaker, where to put up store (9)
27 Former pupils representing Milan University (6)
28 Specific instant leaders of Unionist movement obtain driving power (8)
29 See about event not starting or finishing impartially (6)
30 Fee paid by lord's vassal (8)

DOWN
1 Guide, using hands (6)
2 Small child, quiet and terribly prim (6)
3 A spinster? Wrong (5)
4 About to annoy the rest (7)
6 Something used to convey strong emotion (8)
7 To run periodical initially involves several editors (8)
8 Capital character, said charity ....(8)
11 .... to look after bear (4)
15 A long coat originally, with several sides (9)
17 Aircraft makes journey over well-defined course (8)
18 Request certain to provide amusement (8)
20 Furbelow? (4)
21 Get chemical from doctor round Rhone perhaps (7)
22 However, has not raised how to attach fabric surfaces (6)
23 Main French sea sewer (6)
26 He is involved with any carnivorous mammal (5)

Solution to Puzzle No.7,410

IGNORED LEEWARD / PREEN UNDERWENT / ILLGOTTEN ENTER / DIGIT EXCITABLE / CONFESSOR YEMEN / MINUS GROVELLER / EXTIRPATE TABLE / ENDURED LARCENY

WORLD STOCK MARKETS

CANADA

TORONTO
Closing prices December 4

MONTREAL
Closing prices December 4

INDICES

NEW YORK

DOW JONES	Dec. 4	Dec. 3	Nov. 30	Nov. 29	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
Industrials	2579.70	2565.59	2559.65	2518.81	2999.75 (16/7)	2365.10 (11/10)	2999.75 (16/7/90)	41.22 (2/7/32)
Home Bonds	90.86	90.99	90.62	90.59	93.04 (3/1)	88.44 (24/9)	—	—
Transport	881.84	872.04	855.09	838.22	1212.77 (6/6)	821.93 (17/10)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	212.71	211.77	212.09	208.38	236.23 (2/1)	190.96 (24/8)	236.23 (2/1/90)	10.50 (8/4/32)

Day's High 2592.08 (2589.60) Low 2534.65 (2543.56)

STANDARD AND POOR'S

	Dec. 4	Dec. 3	Nov. 30	Nov. 29	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	326.35	324.10	322.22	316.42	368.95 (16/7)	295.46 (11/10)	368.95 (16/7/90)	4.40 (1/6/32)
Industrials	381.93	380.05	377.92	371.25	437.37 (16/7)	346.86 (11/10)	437.37 (16/7/90)	3.62 (21/6/32)
Financial	23.14	22.55	22.25	21.81	31.87 (3/1)	18.80 (29/10)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	178.19	177.07	176.06	173.14	201.13 (16/7)	162.20 (11/10)	201.13 (16/7/90)	4.46 (25/4/42)
Amex Mkt. Value	302.64	302.60	301.79	299.87	382.45 (5/1)	288.07 (30/10)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	364.12	361.32	359.02	355.75	469.60 (16/7)	325.44 (16/10)	485.73 (9/10/89)	54.87 (31/10/72)

	Nov.30	Nov 23	Nov.16	year ago (approx.)
Dow Industrial Div. Yield	4.01	4.06	4.01	3.87

	Nov.28	Nov.21	Nov.14	year ago (approx.)
S & P Industrial div. yield	3.42	3.44	3.39	2.97
S & P Ind. P/E ratio	15.37	15.29	15.47	14.25

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Closing price	Change on day
First Chicago	9,203,200	16⅝	+ 1
Fleet Bank	6,673,600	13¾	+ ⅞
Citicorp	5,127,100	14⅝	+ 1⅛
Am T & T	3,673,200	30⅝	+ ¼
NCR	3,146,100	83⅝	+ 2
Fannie Mae	2,640,800	31⅝	+ ⅜
Glaxo Hldg	2,213,800	33⅝	+ ⅜
Phillip Morris	2,209,700	49⅝	+ ½
Toys R US	2,200,800	23⅝	− 1⅛
BankAmerica	1,894,000	24⅝	+ 1⅛

TRADING ACTIVITY

† Volume (Millions)	Dec. 4	Dec. 3	Nov. 30
New York	185.820	177.010	192.350
Amex	10.748	10.742	12.607
NASDAQ	(u)	128.810	131.276
Issues Traded	1,993	2,009	1,996
Rises	905	954	1,127
Falls	633	610	430
Unchanged	455	445	449
New Highs	33	32	19
New Lows	38	29	35

CANADA

TORONTO	Dec. 4	Dec. 3	Nov. 30	Nov. 29	1990 HIGH	1990 LOW
Metals & Minerals	2670.70	2631.46	2586.85	2556.12	3453.05 (4/1)	2486.60 (8/11)
Composite	3189.76	3162.11	3151.01	3138.99	4009.47 (3/1)	3009.91 (16/10)
MONTREAL Portfolio	1699.86	1679.44	1668.45	1665.32	2060.90 (3/1)	1607.24 (16/10)

Base values of all indices are 100 except NYSE All Common − 50; Standard and Poor's − 10; and Toronto Composite and Metals − 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

**Saturday December 2: Taiwan Weighted Price 4764.84 [illegible]

‡ Subject to official recalculation. *Calculated [illegible]

Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX [illegible] Industrials − 264.3 and Australia All Ordinary and Mining − 500; (c) Closed.

TOKYO - Most Active Stocks
Tuesday 4 December 1990

	Stocks Traded	Closing Prices	Change on day
Kyosan Elec	12.6m	1,400	-210
Isuzu Co	9.2m	485	-45
Honshu Paper	5.7m	2,140	-400
Hitachi	4.7m	1,030	-20
Nippon Steel	4.6m	360	-11
Toyama Chem	3.6m	570	-80
Kawasaki Steel	3.1m	378	-26
M'bishi Heavy	3.0m	675	-17
N'san D'sel M'tor	2.9m	515	-7
Iseki	2.7m	880	-100

AMEX COMPOSITE PRICES
4pm prices December 4

4pm prices December 4

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
37⅛	9½	AAR	.48	3.9	8	1586	12⅛	11⅞	12⅛	+ ⅛
9⅜	7⅞	[illegible] n	[illegible]	12.		633	8⅛	8⅛	8⅛	+ ⅛
11⅛	8⅜	ACMIn	1.28	13.		1799	10	9⅞	10	
9⅛	6½	ACM M	a1.01	13.		685	7⅞	7⅝	7⅞	– ⅛
12⅛	10	ACMMM	1.50	13.		168	11⅝	11½	11⅝	+ ⅛
11½	8⅝	ACM Sc	1.26	13.		2283	9⅝	9½	9½	– ⅛
9⅜	7⅛	ACMSp	1.01	12.		783	8½	8⅜	8½	+ ⅛
24⅝	16⅛	AL Lab	.16	.7	18	259	22⅝	22	22⅝	+ ⅛
4⅝	1	AM Intl				606	1⅞	1⅛	1⅛	– ⅛
19⅛	4⅝	AM In pf	2	25.		70	8⅛	8	8⅛	– ⅛
70⅛	39⅜	AMR			15	5777	49⅞	48⅞	49½	+ 1
28½	25	ANR pf	2.67	10.		27	25⅞	25½	25⅞	
4	1⅜	ARX				125	2	1⅝	1⅞	+ ⅛
72⅛	39⅛	ASA	3	7.4		433	40⅝	40⅛	40½	+ ⅛
3½	2⅛	ATTC wt				189	2⅛	2⅛	2⅛	
45⅝	31⅛	AbtLab	a.84	1.9	21	6102	45⅛	43½	44⅜	+ ⅛
14	10⅞	AbitIbi g	.50			11	11	11	11	– ⅛
11⅝	4⅝	AcmeC	.40	7.4	12	64	5½	5⅛	5⅜	– ⅛
9⅜	5	AcmeE	.32	6.2	9	55	5½	5⅛	5⅜	– ⅛
32⅞	18⅞	Acuson s			22	1004	28⅛	27⅝	28⅛	+ ⅞
16⅞	14⅛	AdaEx	1.72e	12.		64	14⅞	14⅝	14⅞	+ ⅛
15⅛	10	Adobe				7	10⅝	10½	10⅝	+ ⅛
20⅛	16	Adob pf	1.84	11.		27	17½	17½	17½	
21⅝	18⅜	Adob pf	2.40	12.		12	20	20	20	
11⅞	3⅝	AMD				2055	4⅞	4⅛	4⅛	
32⅞	13	AMD pf	3	20.		20	15	14⅛	14⅞	+ ⅛
9⅛	1⅝	Advest	.16	6.7		x101	2½	2⅜	2⅜	– ⅛
62	29	AetnLf	2.76	7.3	8	3100	38⅛	37⅞	37⅞	– ½
12⅛	6⅛	AfilPb	.24	3.0		794	8⅛	7⅝	8⅛	+ ½
22½	10⅝	Ahmans	.88	6.5	5	3384	13⅝	12⅞	13½	+ ⅝
3⅝	1⅞	Aileen				[illegible]	2⅞	2⅜	2⅜	– ⅛
61	42⅞	AirPrd	1.44	2.6	13	1675	54⅞	54	54⅜	– ⅛
27	13½	AirFrt s	.30	1.8	8	929	17	16⅝	16⅞	
24½	11⅛	Airgas			16	62	12⅞	12⅛	12⅞	
20½	13⅛	Airlease	2.52	17.	7	29	14⅞	14⅝	14⅝	– ⅛
10⅛	8	AlaP dpf	.87	9.3		8	9⅜	9⅛	9⅜	

[illegible]

Continued on Page 39

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

NASDAQ NATIONAL MARKET

3pm prices December 4

Stock	Div.	Sales 100s	High	Low	Last	Chng
[illegible]						

FINANCIAL TIMES
Wednesday December 5 1990

AMERICA

Dow stages late rebound on hopes of Iraqi withdrawal

Wall Street

AN UNCONFIRMED report that Iraq had offered to withdraw its troops from Kuwait in return for guarantees that it would not be attacked and would be allowed to keep the Kuwaiti part of the Rumelia oilfields led to a frantic 40-point Dow turnround in the US equity market last night, *writes Patrick Harverson in New York.*

At the close the Dow Jones Industrial Average was up a net 14.11 at 2,579.70 after fairly heavy New York SE volume of 185.8m shares. Half an hour earlier the index had been down over 25 points, but the rush of demand in the panicky trading that followed the report that Iraq was willing to discuss terms for a possible withdrawal from Kuwait led to the sharp rally.

The Standard & Poor's 500 moved in similar fashion, ending up 2.25 at 326.35, while the American SE composite was less volatile, ending virtually unchanged at 302.64.

Earlier in the day the Fed's decision to reduce reserve requirements on some deposits had led to strong advances in bank shares, which helped turn round an initial fall in the Dow. Although the change in the Fed's requirements was not regarded by the market as an easing in monetary policy, it was seen by most observers as a much-needed helping hand for the beleaguered commercial banking sector.

The lowering of reserve requirements effectively relaxes the tight conditions in the credit markets, and reduces banks' costs by allowing them to move more funds from non-interest earning accounts with the Fed into interest-bearing assets in the money markets. Some analysts speculated that the Fed's policy change could lead to a cut at some stage in prime rates.

Trading in bank stock during the day was heavy. Citicorp led the way, rising $1⅛ to $14⅞ on turnover of 5.1m shares, closely followed by Chase Manhattan, up $½ at $11½ on 1.6m.

Also higher, but on lighter volume, were Manufacturers Hanover, ahead $1 at $20⅞, Bankers Trust, $2⅞ stronger at $41⅞, Chemical Bank, $⅛ firmer at $12⅛, and J.P. Morgan, up $1⅛ at $43⅛.

Security Pacific, the Los Angeles based banking group, advanced $1⅛ to $22⅞ on volume of nearly 1m shares in the wake of a report that it is attempting to place around $100m of subordinated debt privately with Japanese investors.

The repercussions of AT&T's paper bid for NCR, the computer group, continued to reverberate in the market. NCR maintained its upward momentum, adding $2¼ at $83⅞ on turnover of 2.6m shares, while AT&T traded steadily at $30¼ with 3.1m changing hands before lunchtime. NCR's share price is edging towards the effective $90 a share paper offer from AT&T, but the market continued to speculate yesterday that the telecommunications group will respond to Monday's rejection by NCR's management of its offer with a hostile cash bid, perhaps as high as $100

Machinery manufacturer Deere & Co fell $1⅞ to $44½ in bright trading after the company said weak demand due to the slowing economy pushed earnings down from $1.37 to 98 cents a share in the fourth quarter.

Canada

TORONTO also rallied sharply late in the session on the Iraq situation, leaving the composite index 27.6 ahead on balance at 3,189.8, although advancing issues led declines by only 294 to 272. The market gained about 12 points in the last hour of trading. Volume increased to 23.2m shares from the previous day's 15.9m.

Thirteen of the 14 stock groups gained ground, led by financial services, up 2.7 per cent. Royal Bank gained C$⅝ to C$23 after reporting fourth quarter net earnings of 62 cents a share, compared with a loss of 77 cents a year earlier. Loan-loss provisions were significantly higher in the year-earlier period.

ASIA PACIFIC

Nikkei falls 3.8 per cent in thin volume

Tokyo

THE NIKKEI average lost 3.8 per cent to close below 22,000 for the first time since October 1 as the yen suffered a big fall and the effect of selling in the futures market was magnified by the thin volume in the main market, *writes Emiko Terazono in Tokyo.*

The Nikkei opened at the day's high of 22,679.05 and soon gathered downward momentum on small-lot selling. The liquidations increased in the afternoon and the index closed at the day's low of 21,862.41, down 863.38.

Trading volume reached only 240m shares as institutional investors for the most part stayed on the sidelines. Declines overwhelmed rises by 909 to 67, with 71 issues unchanged. The Topix index dropped 48.57 to 1,622.65 and, in London, the ISE/Nikkei 50 index slipped 8.64 to 1,231.00.

The bearish sentiment was carried over from the previous day and the sharp decline in the yen added to the pessimism. The yen lost Y1.35 to close at Y134.35.

Mr Dan Kerrigan at County Natwest said: "A lot of the stocks were depressed by technical trading typical of a bearish market." He added that people were pessimistic in spite of forecasts of a recovery now that long-term interest rates appeared to have peaked.

A total of 131 issues fell to lows for the year, while all sectors lost ground. Rumours of large-size selling orders for stocks bought on margin continued to haunt the market. International blue chips weakened on forced selling over such concern. Sony ended Y310 down at Y5,560 and TDK Y170 off at Y4,000.

Speculative stocks were heavily sold on rumours of speculators' financial difficulties. Kyosan Electric plunged Y210 to Y1,400 as a large shareholder was rumoured to have settlement trouble. Kurabo and Iseki were among the day's ten top losers.

Honshu Paper, a popular speculative issue, registered its maximum permitted daily loss, closing down Y400 at Y2,140. The stock had surged ahead by that amount the previous day on reports that a Hong Kong investment group had claimed to own a third of its outstanding shares. Yesterday, revelations that the predator was a front company with no assets triggered heavy selling.

Dainippon Pharmaceutical was hit by a report that the Ministry of Health had asked the company to inform patients about the alleged side-effects of two of its drugs. Other pharmaceuticals were dragged lower as a result, with Yamanouchi retreating Y180 to Y2,600 and Daiichi Pharmaceutical Y160 to Y2,070.

Non-bank financial institutions fell on reports that the Ministry of Finance would start a survey on non-bank financial institutional lending. Orix dropped Y120 to Y2,820, while Hitachi Credit dipped Y80 to Y1,240.

NCR Japan receded Y10 to Y1,230 on news that NCR, its US parent company in the US, faced a hostile takeover from the telecommunications giant AT&T. On Monday, prior to the announcement, NCR Japan had been one of the day's best performers, adding Y90 in an otherwise dull market.

In Osaka, large-capital and high-technology issues plummeted, causing the OSE average to fall 989.24 to 24,098.20 on poor volume of 14.1m shares.

Nintendo, a popular video game issue, dropped Y1,600 to Y19,400. The stock has been recently hurt by reports forecasting a drop in US sales.

Roundup

WEAKNESS on the Japanese stock market sent most Pacific Rim markets lower yesterday.

AUSTRALIA followed the Tokyo trend. The All Ordinaries index declined 7.0 to 1,317.0 but turnover expanded to A$165m from A$123m.

BTR Nylex, a manufacturing and packaging company, slipped 15 cents to A$2.51 after an announcement that Mr Alan Jackson, the company's chief executive, will become managing director of BTR Plc, the British conglomerate that owns 64 per cent of the Australian concern. Mr Jackson has been regarded as the driving force behind BTR Nylex's success. He will be replaced by Mr Graeme Pearson, director and chief executive of the Australian group operations.

NEW ZEALAND closed at another six-year low in spite of further domestic interest rate falls. Fletcher Challenge dipped seven cents to NZ$3.13. The Barclays index finished 16.00 down at 1,251.89, below its previous six-year low of 1,265.96 set last Friday.

TAIWAN declined, following four straight gains, on fears that domestic fuel prices would be raised for the second time. The weighted index surrendered 81.98 to 4,716.66. Volume eased to T$81.32bn (T$86.38bn).

SEOUL fell sharply after rising for three consecutive trading days. The composite index closed at 708.90, down 8.72, after volume of Won284.5bn, against Monday's Won396.8bn. Profit-taking by investment trusts and insurance concerns in the early afternoon prompted individual investors to join in.

HONG KONG erased early losses, thanks to a late spate of buying. The Hang Seng index closed a net 0.67 up at 3,020.84, while turnover shrank to HK$538m from HK$710m.

SINGAPORE was modestly easier. The Straits Times Industrial index shed 4.29 to 1,121.34, but turnover increased to S$77.22m from S$65.35m.

Wing Tai Holdings plunged 35 per cent at one point before rebounding to close at S$1.04, down 13 cents, on rumours that a consignment of its garments had been rejected by US clients. The rebound followed an announcement by the company denying the rumour.

KUALA LUMPUR was steady. The composite index rose 0.85 to 470.71 on turnover of 23.2m shares (28.7m).

MANILA finished little changed following thin, choppy trading. Sentiment was split between big players supporting selected oil issues and retail traders who took profits. The composite index shed 0.05 to 631.39 on turnover of 67.7m pesos, a drop from Monday's 114.8m pesos.

Belated upper hand for the Bombay bears

R.C. Murthy explains why a Gulf-defying rally in Indian equities has turned to dust

AN AIR of subdued bearishness has replaced the robust optimism of the Bombay stock market. Heavy buying by state-owned mutual funds failed to halt a sharp fall in share prices yesterday, as investors took a pessimistic view of the economy.

The Bombay Stock Exchange (BSE) index fell 40.61, or 3.4 per cent, to 1,163.29. "Investors turned sellers in large numbers because they see recession creeping in," said one broker, who added that corporate profit margins were under pressure following higher oil prices and slower demand.

Political and economic worries have overturned the earlier mood of the market, which saw the equity market capitalisation of about 6,000 listed companies nearly doubled in a year, from Rs450bn to Rs850bn ($46.5bn).

Indian equities had ignored the Gulf crisis for more than two months, hitting a 1990 peak early in October. However, the Indian government was unable to follow suit. In mid-October, it imposed a Gulf levy package which included petrol and diesel price rises and a seven percentage-point surcharge on corporate tax.

The turning point in sentiment, on October 18, also came at *moorat*, the inaugural session of the new year for Gujaratis, predominantly a trading class from western India who dominate the Bombay Stock Exchange. That day's trading is said to indicate the course that stock markets will take over the next year.

The combination led to a severe tumble in share prices, followed by indecision and then renewed pessimism. An attempted recovery on the collapse of Mr V.P. Singh's administration early in November led only to apprehensive speculation about the policies of the new government, headed by Mr Chandra Shekhar.

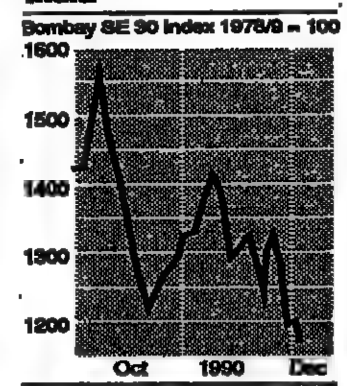
The 30-share index of the Bombay Stock Exchange, India's largest and responsible for nearly half of total national trading, started its most recent downswing on November 21. It fell 55 to 1,265 after Mr Shekhar announced his cabinet.

Many of the new ministers did not suit the men in the market. In addition, a three-week delay in the construction of the cabinet, and dissatisfaction among ministers about the allocation of government portfolios, had raised doubts about the prospects of the minority government completing its full term in office.

Company results for the first half of 1990, especially those from the blue chips, have been a restraining factor on the slide in share values. For example, the market losses of November 21 were recovered five days later in a minor rally fuelled by strong first half results from Associated Cement Companies.

India

Bombay SE 30 Index 1978/9 = 100



However, company prospects are now suspect, and questions have also been raised about New Delhi's capacity to control inflation, and the burgeoning budgetary deficit which has been estimated at Rs100bn for April-October, compared with a previously projected Rs70bn for the year to March 1991.

The balance of payments situation worsened after Moody's and Standard & Poor's downgraded India's rating, making commercial borrowings more expensive than before. The manufacturing sector has been asked to halve inventories of imported raw materials to three months' requirements, raising fears of a slowdown in industrial production.

The waning of investor interest in equities has been noted, and acted upon, by the market. The BSE authorities have relaxed restrictions on forward trading imposed three months ago, allowing greater room to operators. Mutual funds and other institutional investors have remained active.

The bearish mood, however, remains. There has been a tendency to regard the 1,200 level as a resistance point for the 30-share index. But if the Gulf situation worsens, say analysts, the bears may get the upper hand and the resistance point may have to be revised to the 1,000 mark.

South Africa

DEMAND FOR leading industrial stocks, triggered by hopes of an interest rate cut early next year, lifted Johannesburg yesterday. The JSE industrial index rose 78 to 2,903, while the all-gold index fell to 1,245, down 12.

EUROPE

Bourses lose upbeat mood after Far East weakness

TOKYO'S big drop gave investors the excuse they were looking for to take profits on Continental bourses after their recent strength, *writes Our Markets Staff.*

FRANKFURT lost the upbeat mood of the previous few days as the cost of reunification dulled the weekend election euphoria. A bearish note from London on the prospects of the German steel companies also dampened sentiment.

After a fall of 8.16 to 625.06 in the FAZ index at midsession, the DAX closed 16.24 lower at 1,446.34. S.G. Warburg's comments on the strike-threatened steel industry left Hoesch DM17.80 lower at 203.70 and Thyssen down DM10.80 at DM188.50. Volume fell from DM5bn to DM4.0bn, and the very tightness of trade affected share price movements. For example, Metallgesellschaft rose DM16.80 to DM435 against the trend, as a 25 per cent rise in profits attracted a modicum of buying.

A similar situation applied to Kali und Salz, the producer of potash, salt and magnesium compounds, marked up DM12 to DM151 after DM157 as turnover reached 4,000 shares for the day – the normal total for a week – on a no-limit order which suggested that an institutional holder might be dressing up its books.

Ms Barbara Altmann of B Metzler in Frankfurt said that there was further selling pressure on the retailing sector, where Douglas fell DM8.50 to DM829.50 and Kaufhof DM8 to DM526. There are good reports of Christmas trade in the shops, and the view is that investors may be taking profits at a higher level than they might expect to get next year.

Horten fell DM14 to DM189, as a story circulated that WestLB is paying only DM160 a share in its deal to acquire BAT's 51 per cent stake.

PARIS ended almost flat, supported by a rise in Eurotunnel shares and futures related activity. The CAC 40 index closed 1.66 higher at 1,646.53, recovering from a day's low of 1,633.12.

Sentiment was encouraged by rumours that the government might be thinking of incentives to attract savings back to equity and bond Sicavs, the French equivalent of unit trusts, which have been losing out to the currency Sicavs.

Eurotunnel advanced FFr2.60 or 8.2 per cent to FFr34.25 with 5.9m shares traded, as the arbitrage between the shares and the company's rights package ended after the rights subscription period closed on Monday.

Auxiliaire d'Entreprises, the construction company, gained FFr85 or 7.7 per cent to FFr1,185 with 157,050 shares changing hands, on renewed speculation about its shareholding structure. Elsewhere in the sector, Imétal, the buildings materials group, which received a broker's recommendation yesterday for its long-term earnings prospects, added FFr6.90 to FFr227.

Schneider, the engineering company which has lagged behind the market, rose FFr20 to FFr690.

MILAN ended higher but was off the session's highs. The Comit index rose 4.96 to 521.22 in moderate volume.

Fiat rose L44 to L5,480 at the official close but slipped L30 after hours. In a report published yesterday, James Capel expressed concern that the group's future.

The recent decision to build a car plant in southern Italy could put further strain on Fiat's balance sheet, the brokers said, forcing its net gearing up to 65 per cent by December 1991 from 51 per cent at the end of 1989.

STOCKHOLM came off the day's highs on profit-taking after the recent recovery, but still ended slightly higher. The Affärsvärlden general index closed 1.0 higher at 880.5 on volume of SKr319m after SKr275m.

Esselte, the office equipment company, fell SKr2 to SKr96 after the investment company Mobilia, its main owner, said it had filed for bankruptcy.

AMSTERDAM closed mixed in thin trading. The CBS Tendency index closed 0.2 lower at 95.7.

There was a fresh flurry of takeover speculation which triggered heavy trading in shares of the biotechnology group Gist-Brocades. The shares rose Fl 1.30 to Fl 29.10. Unilever was being rumored as a suitor for Gist-Brocades, once it had completed the sale of its pharmaceutical division to Yamanouchi Pharmaceutical of Japan.

ZURICH for once resisted the Frankfurt downtrend. Share prices ended mixed in light trading as the Crédit Suisse index edged up by 0.8 to 469.5.

MADRID dipped on profit-taking in mostly quiet trading, with the general index falling 1.40 to 232.53. Repsol eased Pta45 to Pta2,020 with 203,920 shares exchanged; the oil group announced a 5 per cent rise in its interim dividend to Pta42 a share.

OSLO attracted profit-taking, which pulled the all-share index 7.52 lower to 480.31 in trading worth NKr307m. Saga Peteoleum free shares lost NKr5 to NKr130.

ATHENS slipped back after the previous day's 13.6 per cent jump, which had followed last week's announcement of a tax on interest earned on bank deposits. The general index fell 46.85 or 4.7 per cent to 955.04.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY DECEMBER 4 1990								MONDAY DECEMBER 3 1990					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1990 High	1990 Low	Year ago (approx)
Australia (76)	121.97	−0.4	93.86	103.31	95.31	104.44	−0.6	7.48	122.42	94.58	104.00	96.33	105.12	158.31	116.96	148.29
Austria (19)	198.64	−0.3	152.87	168.26	155.22	154.79	−0.6	1.76	199.16	153.87	169.21	156.72	155.76	285.63	178.57	152.67
Belgium (61)	135.02	+0.6	103.91	114.36	105.50	103.39	+0.3	5.61	134.23	103.70	114.03	105.62	103.11	160.02	126.67	148.57
Canada (120)	126.92	+0.6	97.67	107.50	99.17	107.11	+0.6	3.77	126.17	97.48	107.18	99.27	106.48	153.61	121.24	149.79
Denmark (33)	239.96	−1.1	184.67	203.26	187.50	188.31	−1.4	1.60	242.64	187.46	206.14	190.92	190.99	277.62	234.05	234.68
Finland (25)	105.86	−0.3	81.47	89.67	82.72	79.99	−0.9	3.61	106.21	82.05	90.23	83.57	80.68	152.29	98.91	126.86
France (122)	140.24	+0.9	107.92	118.78	109.57	111.91	+0.3	3.72	139.00	107.39	118.08	108.37	111.63	168.85	124.98	144.86
Germany (91)	115.53	−0.6	88.91	97.87	90.28	90.28	−1.2	2.52	116.18	89.76	98.72	91.42	91.42	144.63	101.36	109.55
Hong Kong (48)	122.58	+0.0	94.33	103.83	95.79	122.78	−0.1	5.39	122.61	94.73	104.17	96.48	122.86	147.49	112.24	116.33
Ireland (17)	147.89	+0.0	113.81	125.27	115.56	117.55	−0.6	4.45	147.95	114.31	125.69	116.42	118.05	198.57	139.04	165.10
Italy (91)	78.82	+1.5	60.66	66.76	61.59	66.56	+0.9	3.70	77.67	60.01	65.98	61.11	66.00	109.26	75.73	92.64
Japan (453)	116.65	−2.6	89.68	98.71	91.07	98.71	−2.9	0.87	119.67	92.46	101.67	94.16	101.67	197.28	106.58	196.88
Malaysia (35)	192.47	+0.6	148.12	163.02	150.39	200.11	+0.6	3.38	191.35	147.83	162.56	150.56	198.94	250.89	182.96	210.35
Mexico (12)	585.55	+0.4	450.63	495.98	457.55	1884.13	+0.4	0.36	583.06	450.47	495.35	458.79	1876.76	585.55	324.53	290.67
Netherland (41)	133.81	+0.1	102.98	113.34	104.56	103.58	−0.5	5.19	133.62	103.24	113.52	106.14	104.13	149.03	127.56	138.83
New Zealand (15)	47.20	−1.7	36.33	39.98	36.88	41.09	−1.6	8.32	48.00	37.09	40.78	37.77	41.75	75.36	47.20	75.65
Norway (27)	221.02	−0.9	170.10	187.22	172.71	176.47	−1.2	1.75	223.06	172.34	189.51	175.55	178.63	276.79	202.34	161.46
Singapore (25)	153.95	−0.5	118.48	130.40	120.29	122.16	−0.5	3.61	154.80	119.59	131.51	121.80	122.77	209.24	147.24	166.97
South Africa (60)	176.11	+1.0	135.53	149.17	137.61	134.00	+1.4	4.14	174.39	134.73	148.15	137.22	132.13	251.39	151.50	173.58
Spain (42)	145.62	−0.4	112.07	123.35	113.79	105.63	−0.6	6.25	146.24	112.98	124.24	115.07	106.30	182.25	128.54	139.11
Sweden (27)	164.25	+0.5	126.43	139.16	128.38	136.99	+0.2	2.97	163.49	126.31	138.90	128.65	136.75	234.93	153.11	165.70
Switzerland (68)	89.71	+0.4	69.04	75.99	70.11	71.41	−0.3	2.56	89.37	69.04	75.93	70.33	71.61	109.77	85.00	92.23
United Kingdom (298)	165.59	−0.2	127.43	140.24	129.38	127.43	−0.6	5.47	165.97	128.22	140.98	130.58	128.22	176.10	139.87	148.80
USA (533)	131.77	+0.7	101.41	111.62	102.97	131.77	+0.7	3.75	130.84	101.09	111.16	102.96	130.84	148.95	119.06	141.70
Europe (962)	136.80	+0.0	105.28	115.88	106.90	106.43	−0.5	4.37	136.78	105.68	116.21	107.63	106.94	157.65	124.91	132.53
Nordic (112)	174.03	−0.4	133.93	147.41	135.99	135.11	−0.7	2.25	174.77	135.02	148.48	137.52	136.11	223.29	170.69	172.97
Pacific Basin (652)	116.67	−2.4	89.78	98.82	91.17	99.38	−2.7	1.80	119.56	92.39	101.60	94.10	102.15	192.75	107.82	191.93
Euro−Pacific (1614)	125.20	−1.4	96.35	106.04	97.82	103.17	−1.7	2.67	126.92	98.06	107.82	99.87	104.98	174.18	116.06	168.26
North America (653)	131.38	+0.7	101.11	111.30	102.68	130.14	+0.7	3.75	130.47	100.80	110.85	102.68	129.23	148.43	119.26	142.09
Europe Ex. UK (664)	119.00	+0.2	91.58	100.82	93.01	94.05	−0.4	3.55	118.77	91.76	100.92	93.48	94.39	145.62	108.94	121.43
Pacific Ex. Japan (199)	117.56	−0.3	90.47	99.59	91.87	104.53	−0.4	6.31	117.89	91.08	100.17	92.78	104.97	146.72	116.08	152.62
World Ex. US (1806)	126.02	−1.3	96.98	106.75	98.48	104.05	−1.6	2.72	127.63	98.60	108.44	100.42	105.75	173.77	117.12	167.75
World Ex. UK (2041)	123.23	−0.6	94.84	104.39	96.30	111.08	−0.6	2.77	123.99	95.79	105.34	97.57	111.99	162.00	115.37	158.24
World Ex. So. Af. (2279)	125.70	−0.6	97.50	107.33	99.01	112.55	−0.8	3.08	127.43	98.45	108.27	100.28	113.47	161.84	116.04	157.26
World Ex. Japan (1886)	133.69	+0.4	102.88	113.25	104.48	120.26	+0.2	4.09	133.16	102.88	113.14	104.80	120.02	151.59	124.31	138.58
The World Index (2339)	126.99	−0.6	97.73	107.57	99.24	112.71	−0.8	3.08	127.72	98.67	108.51	100.50	113.61	162.05	118.33	157.38

Amendments to indices for December 3 applied to Belgium, related regional indices and the World Index.
Constituent change: Elders Resources NZFP was deleted from New Zealand 3/12/90.

JPMorgan

FINANCIAL TIMES SURVEY

THAILAND

Lower growth forecast for a booming economy — see page 3.

A roller-coaster ride for stock exchange investors — see page 3.

SECTION III

Wednesday, December 5, 1990

The fast-growing Thai economy has undergone radical transformation in the last three years. But economists are worried now about emerging inflationary pressures, uneven development and high environmental costs, reports **Paul Taylor** in Bangkok.

Poised to join 'the tigers'

THAILAND, and its economy, appears poised to join the ranks of the "Asian tigers." The Gulf crisis may deprive this kingdom of 56m people of the ultimate accolade of the world's fastest-growing economy again this year, but Thailand's recent economic performance has nevertheless been impressive.

Over the last three years in particular, the Thai economy has undergone a radical transformation, with economic growth averaging 11.7 per cent and expected to run close to 10 per cent in 1990 — despite serious infrastructure problems and the Gulf crisis.

Fuelled by a influx of foreign investment, manufacturing industry has shot past Thailand's traditional agricultural base and now accounts for a quarter of the country's Gross Domestic Product of about US$81bn.

By the mid-1990s, Thailand's per capita Gross Domestic Product will have trebled to US$3,000, according to Dr Phisit Pakkasem, secretary general of Thailand's National Economic and Social Development Board, the country's developmental planning and management agency.

If his projections prove accurate, Thailand will have broken away from the pack of other south-east Asian nations chasing the region's established Newly Industrialised Nations (Nics) — Korea, Taiwan, Hong Kong and Singapore — and Asia's economic power-house, Japan.

Although the already-overheated Bangkok bourse has taken a battering in recent months — losing more than 40 per cent of its market capitalisation since its peak just before Iraq invaded Kuwait — and the speculative property sector appears headed for a downturn, there is no talk of recession here.

Instead, the government and its senior economic advisers worry about defining a "sustainable" level of economic growth, about emerging inflationary pressures, infrastructure bottlenecks, uneven development and increasingly about the environmental cost of prolonged double-digit growth.

If the government's economic advisers prevail, the seventh five-year plan, beginning in 1992, is likely to stress "more cautious" economic growth, place greater emphasis on addressing glaring income distribution disparities, and on conservation, where an increasingly vociferous lobby is demanding drastic action to reduce pollution, reverse massive de-forestation, and protect the country's cultural heritage and environment.

From a foreign investment perspective, Thailand remains an attractive option. The gradual reduction of import tariffs, financial liberalisation — including the recent abolition of exchange controls — and the government's determination to mobilise private capital to help solve some of the country's worst infrastructure problems, all suggest that foreign fixed investment, if not portfolio investment in the short-term, will continue to grow.

Thailand's perceived political stability has undoubtedly played a major part in attracting the foreign capital Thailand has needed to modernise its economy.

Here, too, Thailand is fortunate in having the three solid pillars of religion, nation and monarchy. Its deeply entrenched Buddhist culture in particular stresses avoidance of extremes, and advocates a "middle way" consensus.

Thus, despite frequent political bickering, allegations of corruption and an uneasy alliance with the military — which has seen its political power gradually wane — the business of government run by a powerful, if badly paid civil service, goes on.

Nevertheless, the nine-party coalition government led by Gen. Chatichai Choonhavan and his Chart Thai party has perhaps never looked more shaky. Gen Chatichai, who was elected in 1988, Thailand's first elected prime minister for 12 years, has managed to hang on to power by reshuffling his cabinet with increasing frequency. But his catch-phrase "no problem" answer to difficult questions has begun to sound increasingly hollow.

Political tensions

One reason may be the defection of Gen. Chavolit Yongchaiyudh who quit his cabinet post as defence minister to set up the New Hope Party with strong military backing.

His move co-incided with several well-publicised disputes between senior military officers and some of Chatichai's more outspoken ministers which have heightened tension.

Despite this, most political observers expect the Chatichai government to survive, although they do not dismiss speculation that the prime minister might call an early snap general election next year, before its full term is up, if he feels the timing is right.

In foreign policy, too, the prime minister still has to resolve some long-standing problems if Thailand is to achieve his ambition of becoming a pivotal trading centre for an emerging Indochina.

Progress towards peace in Cambodia has proved painfully slow, despite the agreed international framework for talks.

Similarly with Burma, Thailand's commercial considerations, particularly logging concessions, have meant that Bangkok has remained on friendly terms with the ruling State Law and Order Restoration Council (Slorc), while the human rights abuses of Slorc and its refusal to hand over power to the National League for Democracy — which recorded a landslide election victory in Burma in May — has resulted in widespread international condemnation.

Nevertheless, the prospect of eventual peace in Cambodia and the gradual opening up of Vietnam and Laos has once again raised Thailand's hopes that resource-rich Indochina could help fuel the second stage of Thailand's industrial development which will involve greater industrial integration and "a step up the technology ladder".

To make this crucial second stage leap, Thailand not only has to sort out some challenging foreign policy dilemmas, but will also have to address some serious domestic economic and social problems — including a rapidly emerging shortage of engineers, accountants and skilled workers.

In addition, Thailand's "economic miracle" is almost exclusively centred on the capital Bangkok. The city has an official population of 6m, but probably now totals around 8m, and accounts for perhaps 50 per cent of the country's GNP.

Talk of "Nic status" means little to the vast majority of Thailand's rural and mostly poor farmers, many of whom live in the north-east. Over 60 per cent of Thailand's workers are classified as farmers and their share of the nation's wealth has continued to decline. Attempts to broaden the industrial base through graduated zoning incentives have had only limited success — the major exception being the huge petrochemical and industrial complex being constructed at Ma Ta Pud on Thailand's Eastern seaboard where both Shell and Caltex have recently won approval to build and operate two huge new refineries.

Such diversification is important for another reason - Bangkok and its immediate environs is literally choking to death. Pollution levels in the city are up to three times internationally recognised safe limits and the capital's notorious traffic jams are estimated to be costing up to 10 per cent of the metropolitan region's potential GNP. Bangkok's port, Klong Toey, is overcrowded and the telephone system is totally overloaded.

These infrastructure problems were probably inevitable, given Thailand's recent rapid growth, which was needed to lift it out of a mid-1980s slump. As Mr Staporn Kavitanon, deputy secretary-general of the Board of Investment, says: "If the patient has a high temperature, you put them in a cold bath. You deal with pneumonia later."

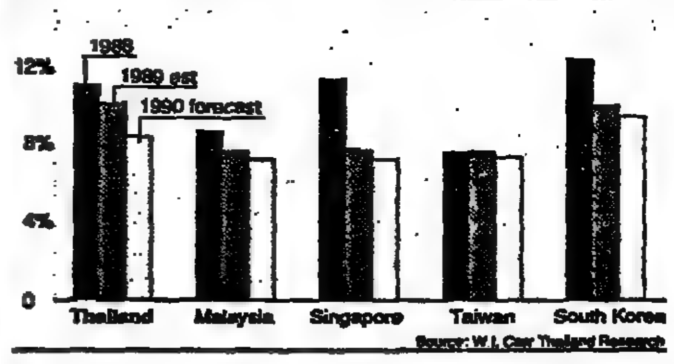
Instead of pumping billions of taxpayers' or borrowed baht into major infrastructure projects to cure the "pneumonia," the Thai government has instead invited the private sector to undertake them.

Among these major projects, Hopewell Holdings of Hong Kong has signed a 80bn baht contract to build an 60km elevated rail and road system in Bangkok; Canada's Lavalin group has won a 42bn baht contract to build a Skytrain light rail mass transit system, and private sector bidders are vying for the right to build and operate container terminals at the new Laem Chabang deep-sea port.

Meanwhile, a joint venture partnership comprising the Charoen Pokhpand agro-industrial group and British Telecom has won a 150bn baht contract to provide 3m new telephone lines, more than doubling existing capacity.

Inevitably, given Thai politics, many of these projects have been delayed, are behind schedule or may never be completed. But they are crucial to the nation's longer term aspirations. The Thai economy could still be blown off course by a prolonged world economic downturn, or by unexpected domestic upheavals in a country where democratic traditions, along with the industrialisation process, are still in their infancy.

Real GDP comparisons



Source: W.I. Carr Thailand Research

■ THAILAND'S prime minister, General Chatichai Choonhavan, (pictured right).
■ LEFT: contrasting views — a floating market at Damnoen Saduak and the opulent Amrin Plaza shopping centre, Bangkok.

IN THIS SURVEY

□ *Pictures in this survey are by Glyn Genin, Terry Kirk, Ashley Ashwood and David Hayes.*

□ *Editorial production by Michael Wiltshire.*

Government and military are preoccupied with power struggles

High political wrangling

WHEN, on November 22, General Chatichai Choonhavan failed to resign as prime minister of Thailand, he said that false rumours that he *would* do so – spread by the media – were far more worrying than economic problems arising from the Gulf crisis.

The previous day, when he flew for an audience with King Bhumibol Adulyadej, most observers had been convinced that the prime minister was seriously considering quitting, if only to strengthen his hand in his tussle with the military. But Gen. Chatichai did not resign and immediately criticised the rumour-mongers.

Some economists have been complaining, however, that the government and the military have been so pre-occupied with power struggles, petty wrangling, and political speculation that decisions – necessary to keep the economy on a sound footing – are not being made. As early as August, 1988, when Gen. Chatichai became the first elected politician to be appointed prime minister in 12 years, his government's ability to manage the economy was being questioned.

The concern is warranted, particularly when it comes to decisions on large infrastructure contracts. But, the concern can also be exaggerated, since the Thai economy has rarely suffered long-run damage from political bickering.

The bureaucracy still exercises a considerable influence over economic policy, despite the gradual shift in power to elected politicians that has been taking place since the late 1970s; and the private sector is largely given a free rein.

These features were re-inforced in August this year, when a technocrat and a former businessman, both non-elected and with clean reputations, were appointed to head the commerce and finance ministries.

It could even be that the tension between the military, who have not staged a successful *coup d'etat* since 1980, and the elected politicians stems from a decline in the influence of the armed forces. An important factor in this has been Thailand's economic growth and the ascendancy of a modern business class.

In previous decades, such tension was guaranteed to lead to a change of government, if not an outright military takeover. But some of the bitterness seen in the past few months may express the frustration of commanding officers having to face reality.

They were raised to believe that they were uniquely qualified and entitled to rule. Now that assumption is being openly questioned, and by politicians whose legitimacy is backed by votes – even if many of those votes were bought.

Nothing is certain, however.

Street market stalls in Bangkok: decisions necessary to keep the economy on a sound basis are not being made, due to political speculation, claim observers.

Gen. Chatichai could still resign in the not-too-distant future and the military try to take power.

But if the 68-year-old retired general and former diplomat has proved his ability to survive. He has also shown that an elected prime minister in Thailand can strive for statesmanship and try to curb the less honourable excesses of some of his own party leaders.

Gen. Chatichai's 28-months' premiership has been littered with shattered predictions since his own denial that he would be prime minister, immediately after his Chat Thai Party won the largest number of seats in the July, 1988, general election. The incumbent, Gen. Prem Tinsulanonda, decided to quit, and Gen. Chatichai was appointed.

Few thought he would last more than three months. But he confounded the sceptics and has gradually developed a siege mentality style of government.

Amid continual bickering and jostling for the prime cabinet positions, within and among the six coalition parties (increased in August to seven), the Prime Minister has come to trust only his closest policy advisers, including his son, Mr Kraisak Chonhavan. This has meant cutting himself off from the main factions in his own party, and trying to balance the various interests whose loyalty he no longer commands.

Eventually, most important policy decisions, and some key appointments, have either been screened by or have come directly from the advisers, sometimes without even consulting the ministers or officials concerned.

This has allowed Gen. Chatichai to ensure that some rational policies emerge; but it has also alienated much of the bureaucracy and several ministers, notably Air Chief Marshal Siddhi Savetsila, who, in August, saw no point in continuing after ten years as Foreign Minister.

After the Cabinet reshuffle in August, experts said calm would descend until Parliament was reconvened early next year. True to form, within hours they were proved wrong.

The immediate cause was a continuing quarrel between a brash young former police officer called Chalerm Yoobamrung, whose tiny party had been invited to join Gen Chatichai's coalition in 1988 so that Police Capt. Chalerm could act as the Government's guard-dog.

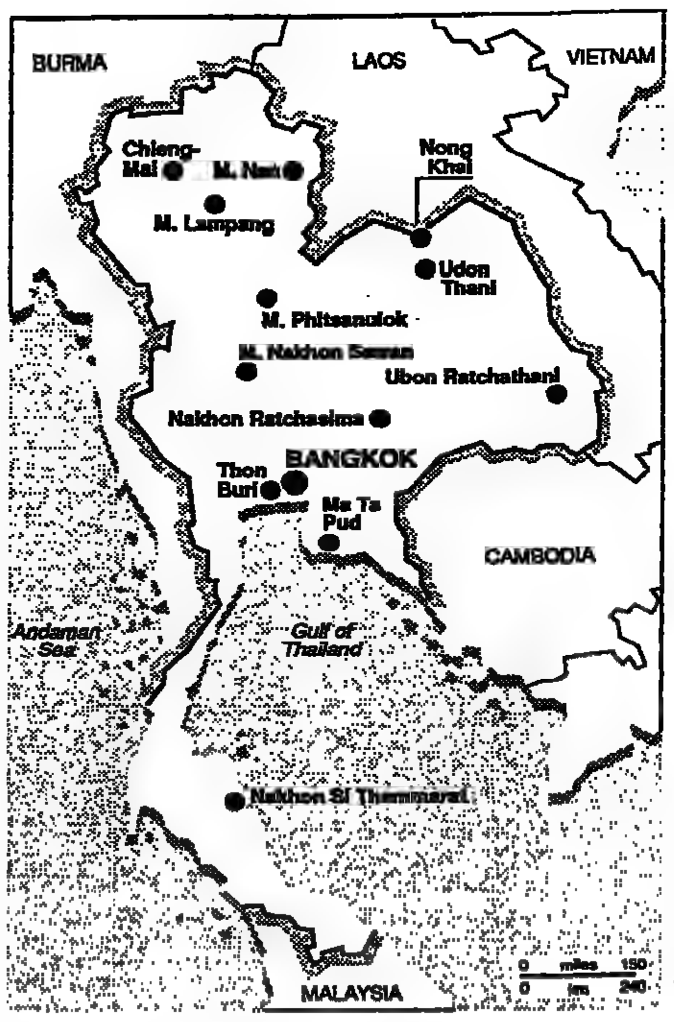
Police Capt. Chalerm jumped at the opportunity, exercising both bark and bite. In parliament, his populist rhetoric was unleashed against the opposition.

Outside, he used his own small police task force to raid influential opponents, including arms smugglers in sensitive border areas supposed to be under military control. Sometimes, his attacks were directed at key members of the government who might have become over-ambitious in Gen Chatichai's eyes, but never against the prime minister himself.

His portfolio included responsibility for the Mass Communications Organisation of Thailand, whose two television channels frequently carried his own lengthy press conferences. He sometimes used the two channels to counter the army's TV and radio stations, but he also placed greater emphasis on coverage of the opinions of government and opposition MPs, reinforcing the legitimacy of the elected representatives.

Three reasons have been suggested for Police Capt. Chalerm's quarrel with the military:

- A natural antagonism between elected politicians and the military;
- His own earlier associations with a younger group of officers known as the Young Turks, who, ten years ago, were influential in making Gen. Prem prime minister, but are now much less powerful and at odds with the top commanders;
- Gen. Chatichai's increasing worries about the political aspirations of the former army commander, Gen. Chavalit Yongchaiyudh, who retired early at the beginning of the year to set up a new party and seek election.



Police Capt. Chalerm countered the military's complaints of corruption in the Chatichai Government with accusations that the armed forces themselves were not too clean.

In early November, the top brass told Gen. Chatichai that Police Capt. Chalerm would have to go. They also apparently insisted that the powerful secretaries general of the Chat Thai and Social Action Parties, who had been involved in controversial decisions concerning infrastructure contracts, be promoted to largely ceremonial posts as deputy prime ministers.

Gen. Chatichai appeared to yield, at least as far as sacking Police Capt. Chalerm was concerned, even though the changes implied serious party political problems for the Prime Minister.

Academics and MPs from both sides of the House of Representatives were seen daily, even on army TV, criticising the military for interfering with the elected government. The legitimacy of the military pressure was under severe strain.

But when it was announced on November 22, the reshuffle only demoted Chalerm. He stayed in the Cabinet. The military were clearly dissatisfied, but could do nothing, immediately at least.

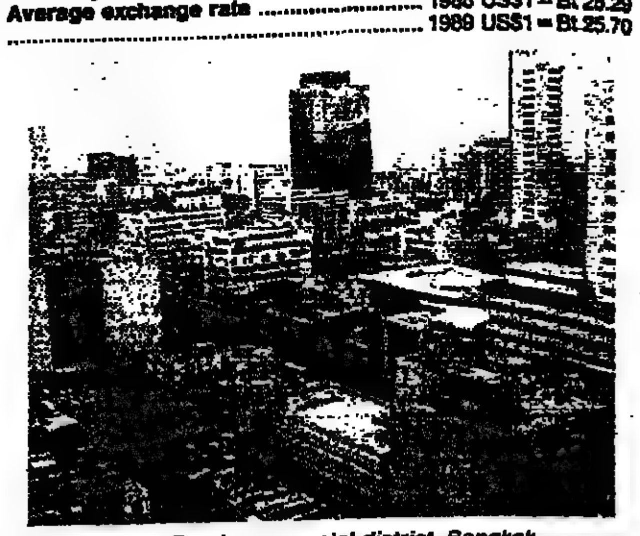
They could still try to use force. But increasingly their best chances of reaching political power seemed to be by resigning and running for election. That is the alternative chosen by several officers, including Gen. Chavalit, who has a number of supporters in key command positions in the army but may not have had enough time yet to build up his New Aspirations Party.

Timing – and Gen. Chavilit's ambition and strategy – may be key determinants of what happens in the next few months, as the Chatichai Government's four-year term draws to an end.

Peter Ungphakorn

KEY FACTS AND INDICATORS

Area	514,000 sq km
Population	56.1m (1989 estimate)
Head of state	King Bhumibol Adulyadej
Currency	Baht (Bt) = 100 satang
Average exchange rate	1988 US$1 = Bt 25.29
	1989 US$1 = Bt 25.70



Silom Road commercial district, Bangkok

ECONOMIC INDICATORS

	1988	1989
Total GDP (US$bn)	59.6	69.7
Real GDP growth (%)	13.2	12.3
GDP per capita (US$)	1092	1256
Components of GDP (%)		
Private consumption	60.3	58.6
Gross fixed investment	27.0	30.4
Increase in stocks	1.8	0.6
Government consumption	10.4	9.9
Exports	34.2	36.3
Imports	−35.7	−38.8
Current account balance (US$bn)	-1.7	-2.4
Exports (US$bn)	15.8	19.8
Imports (US$bn)	17.8	22.8
Trade balance (US$bn)	−2.0	−3.0
Main trading partners (% of total value)		
EXPORTS:		
US	20.0	22.0
Japan	16.0	16.7
IMPORTS:		
Japan	29.0	31.0
US	14.0	12.5
Total external debt (US$bn)	17.9	19.1
Debt service ratio (%)	12.9	11.0
Consumer prices (% change per annum)	3.8	5.4
Unemployment (% of labour force)	2.5	4.6
Reserves minus gold (US$bn)	6.1	9.5
Narrow money growth (% p.a.)	12.2	17.3
Broad money growth (% p.a.)	18.2	26.8
Prime rate (% p.a., year-end)	12.0	12.5
Deposit rate (% p.a, average)	9.5	9.6
Government bond yield (% per annum, average)	7.5	7.5
Bangkok SET index (% change over the year)	35.7	127.3

Sources: Christopher Flood and Keith Fray, FT Statistics Department; IMF, Datastream, Economist Intelligence Unit, W.I.Carr, Thailand Research.

Lower growth forecasts for a booming economy

A chance to cool off

CRAWLING along the optimistically-named "expressway" from Don Muang international airport towards the centre of sprawling Bangkok, it is easy to understand why Thailand's central bank noted in a recent publication: "Thailand is now changing so rapidly that apparently conflicting impressions seem difficult to reconcile. Certainly, the economy is difficult to categorise."

Side by side with the "shophouses", where so much of Thailand's small-scale industry is still undertaken, are big new office blocks such as Thai International's striking headquarters and government agencies such as the Board of Investment which has overseen the $4.8bn influx of foreign fixed investment into Thailand in the last three years alone. Behind them are rice paddy fields.

Here, too, are the buildings housing Thailand's rapidly expanding electronics industry, parking lots of construction equipment, and on the horizon dozens of cranes perched on top of new apartment buildings, department stores and hotels.

"This is one of the world's fastest growing economies, with a rapidly expanding manufacturing sector supplying textiles, garments, electrical and electronic goods, gems and jewellery and dozens of other products for local and world markets. It is one of the world's favourite tourist destinations and is immensely popular for local and foreign investors," trumpets the Bank of Thailand's guide to the economy.

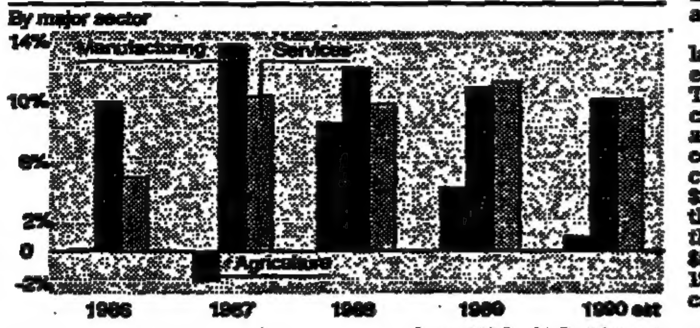
More soberly, the publication adds: "But Thailand is also an agricultural economy exporting more rice and tapioca than any other country. Despite the Thai economy's strength and rapid growth, the country still has some ground to catch up with the newly industrialised economies. Per capita GNP, for example, is $1,400 per year, less than a third of South Korea's and 18 per cent of Singapore's. Continued rural and industrial developments are genuine needs."

The Thai economy is indeed booming, but it is probably also facing a period of slightly slower growth and structural adjustment. In the wake of Iraq's invasion of Kuwait, analysts have been downgrading their growth projections. After two years of double-digit economic growth real GDP growth is likely to be between eight and 10 per cent this year and most analysts expect it to slow further to perhaps seven or eight per cent next year.

Despite this, Thailand will still remain one of the fastest growing economies in the region. Indeed, many government and private sector economists express a quiet sense of relief that a slowdown in world economic growth may give the overheating Thai economy a chance to cool off and perhaps address urgent infrastructure and other problems.

GDP

By major sector



Source: W.I. Carr Thailand Research

Even before the Middle East crisis there were signs that the rapid expansion of the Thai economy was creating inflationary pressures. Land prices, in Bangkok in particular, have been soaring, strong credit demand has meant that the broad money supply measure has been growing at an annualised rate of almost 30 per cent despite firmer interest rates, and the unions are pushing for an increase in the minimum daily wage from 90 baht to 110 baht.

"Despite efforts by the government to contain the knock on effects of the fuel price increases, inflation in the fourth quarter of 1990 and the first half of 1991 could rise to 9-10 per cent, before easing during the second half of next year," warn Merrill Lynch's economists in their latest Asian Economic Commentary.

Reducing inflation is therefore likely to be a major goal of policy makers next year and when the country's next five year economic plan is unveiled in October. While there are those in Government who might be tempted to risk further inflationary pressure in order to maintain politically popular high growth rates – with the inherent risk of a "hard landing" later – most analysts believe that those senior government economic advisers advocating slower but "sustainable" long-term growth targets will prevail.

This confidence rests in part on the belief that the management of the economy and monetary policy is now firmly in the hands of two well respected technocrat economists, Finance Minister Virabongsa Ramangkura and the new Bank of Thailand Governor, Vijit Supinit.

In the wake of the Gulf crisis, the central bank moved to inject short term liquidity into the banking system, but, as Mr Vijit has made clear, "we by no means intend to ease our monetary policy". Merrill Lynch expects economic policy in 1991 to "veer towards stability, rather than maintaining rapid growth at the cost of higher inflation and wider external deficits".

Exports have been the driving force behind Thailand's recent rapid economic expansion, growing at more than 20 per cent a year over the past three years including a 28 per cent increase last year. But export growth is slowing, perhaps to 17 per cent this year, reflecting weaker external demand, particularly in the US which remains Thailand biggest export market accounting for about a fifth of the country's $20bn exports last year.

However, imports, particularly of the capital goods and raw materials needed by Thailand's new industries, remain strong totalling $24.9bn last year.

Between 1986 and 1989, imports grew at an annual rate of about 40 per cent and, although growth is expected to slow to about 24 per cent this year, Thailand's merchandise trade deficit will nevertheless widen.

The continued strong import growth reflects not only the impact of higher oil prices and oil consumption but also the rapid increase in domestic consumption estimated to be running at more than 15 per cent annually.

Since tourism growth, Thailand's major foreign exchange earner, and remittances from Thai workers overseas, especially in the Middle East, are also expected to slow, the country's current account deficit which stood at around $2.6bn in the first eight months this year could exceed $4bn for the full year and increase to $5.4bn or 6.1 per cent of GDP in 1991, according to some forecasts.

While this trend is worrying in the short-term, Thailand has substantial foreign exchange reserves which rose by nearly $3bn between the end of 1989 and mid 1990 to a level equivalent to about five months imports, and its net foreign debt has been cautiously managed, totalling about $19.4bn last year.

Other positive economic factors include a steady decline in the share of imported oil in Thailand's total primary energy supply, and the government's steady programme of economic liberalisation. This year for example foreign exchange controls have been relaxed with further liberalisation planned.

Tax reform is under active consideration and import tariffs have been reduced on more than 2,000 items – including a substantial reduction in the import duty on capital machinery – which should help maintain the country's competitiveness.

Paul Taylor

BANKING AND FINANCE

To earth with a bump

IT HAS been a roller coaster ride for investors on the Stock Exchange of Thailand this year. After peaking at 1,143 towards the end of July the already overheated SET index plunged by more than 40 per cent in the wake of Iraq's invasion of Kuwait and has been in the doldrums ever since.

Daily SET share volume has been averaging between 1.5bn baht and 2bn baht in recent months compared to over 4bn baht at the height of the bull market. Most market analysts see little prospect of an early pick-up in either volume or prices.

While the collapse in the index partly reflects concerns about the Middle East it also highlights more fundamental factors including domestic political uncertainties, slowing economic growth, lower corporate earnings projections and concern about emerging inflationary pressures.

Indeed even before the Middle East crisis began, the SET had signalled its concern about aggressive speculative stock buying through raising margin requirements, posting warning "designated securities" notices and some tough speeches by Dr Maruey Phadoongsidhi, the SET president.

In the longer term, it is arguable that knocking the speculative wind out of the Thai capital markets will prove to have been a positive development. For one thing, it has also served to remind investors that the SET is still a young, fast growing but highly volatile market where the rewards, and the risks, can be large.

Equally importantly, the Thai financial markets and system are in the midst of far reaching changes designed both to service a rapidly expanding and capital-hungry domestic industrial base, but also to position Bangkok as a regional international financial centre.

To achieve these goals will require further changes to the heavily protected Thai banking system and a substantial upgrading of the capital markets together with a set of financial liberalisation measures which have already begun.

In the securities industry, competition will be improved by a further increase in the number of SET seats from 35 to 40. Nineteen companies, six of them with foreign joint venture or management partners, are bidding for the five new seats which, despite current market conditions, are expected to fetch more than 100m baht each at auction, an investment which bidders say would soon be recovered thanks to the SET's 0.5 per cent fixed commissions.

Beginning this month the SET is introducing a computerised trading and back office system, bought at a cost of $150-200m from Chicago's Midwest Exchange, with full implementation set for April next year.

Among its major benefits, says Ms Patareey Benjapolchai, the SET's manager of development and planning, it will enable the three-day settlement period to be fully implemented, improve efficiency and cut costs. Trading hours, currently from 9.30 to 11.30am, are also likely to be extended to four hours a day.

Reporting requirements and regulation of the industry is being tightened and there are long delayed plans for a stock exchange commission to help improve investor protection. At the same time, the SET has set ambitious targets for growth. By 1995 the exchange hopes to almost double the number of listed companies to 400.

Tight money market conditions and an upward trend in interest rates should help make the SET an attractive fund raising option for fast growing domestic companies while the government's privatisation programme, which has already seen Krug Thai Bank and North East Products brought to market, is likely to include Thai Airways International, the Electricity Generating Authority of Thailand,

Mergers should continue to benefit the economy

Thai Oil and the Port Authority of Thailand.

At the same time, the SET is trying to broaden share ownership. Currently it estimates that there are around 400,000 private investors although this number is disputed by some who claim double counting exaggerates the figure.

Foreign investors, mainly institutions, are also being encouraged through measures like the recent liberalisation of foreign exchange controls and a mooted change in the law which would remove the Mutual Fund Company's domestic monopoly on management of investment funds.

Foreign investment in the SET totalled 12.9 per cent or 97.8bn baht at the end of 1989 and, while net portfolio investment was probably zero in the third quarter, the underlying level of interest in the Thai market is indicated by the growing number of foreign securities firms, 19 at the end of 1989 and probably closer to 30 now, which have set up Bangkok representative offices to undertake research work for overseas clients.

The SET is also likely to move cautiously towards the introduction of instruments such as swaps and options.

although Dr Maruey stresses that it will be a "step by step" approach because "our market is young and our investors are not that sophisticated, they need education first". In the banking sector, too, changes are underway. In the wake of a serious crisis in 1984/86, which saw several banks become insolvent, the Central Bank has imposed tighter supervision and more stringent capital requirements. Now competition is growing as a result of the introduction of electronic banking and new competition from foreign commercial and investment banks and non-banks like department stores, which have begun issuing credit cards, and the country's 94 finance companies.

At the same time, the Central Bank is moving cautiously towards deregulating interest rates, one of a series of measures designed to improve the country's financial infrastructure.

At the moment, the majority of Thai banks are privately owned. "In future, banks will have to be prepared for yet keener and more sophisticated types of competition from both local and overseas financial institutions," says the Thai Bankers Association.

Bank earnings have been buoyed by rapid credit expansion but "margins, firming slightly in 1990, may weaken in 1991 as loan growth is expected to slow," said Baring Securities in a recent report. To offset this the Thai banks are diversifying into non-interest income areas.

Nevertheless greater competition, particularly from the finance and securities companies which derive most of their funds from local promissory notes, and the gradual loosening of founding families' grip over some of the privately owned banks, could result in mergers, or even takeover-battles within the Thai banking sector.

Like the Thai stock market crash, some of these changes may be painful. But they are probably essential if Bangkok is to achieve its aim of catching up with Hong Kong and Singapore and seriously challenging them for the right to become a regional financial and trade hub at the gateway to Indo-China.

Paul Taylor

Top 10 brokers by trading volume

Rank for the year to September 30, 1990	Trading volume in bn baht*	Share (%)
1. Nava Finance	61.02	5.9
2. Securities One	58.93	5.8
3. National Finance	58.89	5.8
4. Phatra Thanakit	57.95	5.6
5. CMIC Finance	57.80	5.5
6. Asia Credit	56.29	5.5
7. General Finance	46.89	4.5
8. Union Asia Finance	43.86	4.2
9. Thai Securities	43.27	4.2
10. First Pacific Asia	39.48	3.8

*Note: buying and selling orders combined. Data source: Securities Exchange of Thailand.

PROFILE: Virabongsa Ramangkura, finance minister

Doctor with a harsh remedy

THE APPOINTMENT of Dr Virabongsa Ramangkura, a former university professor, as finance minister in August, was a clear attempt by the Thai prime minister, Gen Chatichai Choonhavan, to put economic policy on a sounder footing.

Gen Chatichai's own reputation may depend on the move since his success or failure as prime minister may be measured by his ability to prevent Thailand's economic growth from being disrupted by the political troubles that plague his government.

But politics could be his undoing. The medicine Dr Virabongsa is likely to prescribe against higher oil prices and declining world trade is not likely to be pleasant.

Dr Virabongsa was probably chosen more for his reputation as one of Thailand's most able professional economists than for his monetarist beliefs

Moreover, the new minister is not an MP (under the constitution only the prime minister is the only cabinet member who has to be one). And he lacks a political powerbase.

This could lead to problems. Dr Virabongsa was probably chosen more for his reputation as one of Thailand's most competent professional economists than for his monetarist beliefs. Nevertheless, his emphasis on fiscal caution follows a long Thai tradition.

He may have difficulty persuading elected politicians and the public that curbing inflation and avoiding balance of payments and debt problems must be the priorities if economic expansion and improved income distribution are to be achieved. Some elected politicians would prefer to cushion the impact of higher oil costs through tax cuts or subsidies. Dr Virabongsa believes that would only worsen inflation.

On November 23, after three months of uncharacteristic quiet, Dr Virabongsa announced an unusually large 2.5 per cent increase in the legal ceiling on loan interest rates.

The actual rates do not need to rise to the maximum 19 per cent, but the money market has tightened during the Gulf crisis and therefore the rates could approach the limit.

The initial response from business has been dismay. The political test for Dr Virabongsa is whether public opinion, which has learned to accept the economic rationale for higher retail oil prices, ,can also tolerate the higher cost of borrowing.

Despite his academic background, Dr Virabongsa, 47, is not new to political controversy. He was one of the principal economic advisers of the former prime minister, Gen Prem Tinsulanonda, and during the mild recession of 1985-86 argued vigorously in cabinet against heavy government borrowing for large development projects.

In his doctorate thesis, completed in 1972 at the University of Pennsylvania, he argued that the Keynesian theories of his supervisor, Nobel-prize-winner Lawrence Klein, were inappropriate for a small open economy such as Thailand's. His econometric model of the Thai economy was monetarist, and Prof Klein accepted it.

While teaching at Bangkok's Chulalongkorn University in the early 1980s, Dr Virabongsa helped build the national planning agency's computer model for the economy.

In 1985, he was appointed macroeconomic programme director of the independent Thailand Development Research Institute.

Earlier this year, he agreed to work on an Asian Development Bank consultancy in Laos. But he was recalled to Bangkok when the reshuffle was announced.

His close relations with senior Bank of Thailand officials are likely to mean improved coordination of monetary and fiscal policies, as the raising of interest rate ceilings has shown.

Peter Ungphakorn

PROFILE: Vijit Supinit, governor of the Bank of Thailand

An insider becomes a peace-maker

MR VIJIT SUPINIT'S appointment as governor of the Bank of Thailand in September heralded further improved relations between the central bank and the finance ministry.

Like the finance minister, Dr Virabongsa Ramangkura, who was primarily responsible for his selection, Mr Vijit believes that maintaining economic stability, primarily through monetary and fiscal discipline, should take precedence if growth and income distribution are to be achieved in the long term.

His appointment ends a sequence of unusually heated events at the Bank of Thailand, which is normally one of the most competent and professional government agencies.

Further liberalisation of the banking sector is expected in the coming months

Trouble came to a head late last year when the inflation rate crept towards 8 per cent. The central bankers wanted to allow interest rates to rise in order to put a brake on bank lending that was contributing to economic overheating.

The finance minister, Mr Pramual Sabhavasu, staked his reputation on protecting housing loan borrowers and small businesses against higher interest rate costs.

He rejected arguments that the small borrowers would face rationing if interest rates were prevented from rising.

Discontent in the central bank was not only about Mr Pramual's rejection of their policy. In January, a group of ten officials, comprising assistant governors such as Mr Vijit and department heads, went to see the governor, Mr Kamchorn Sathirakul.

They pleaded with him to take a firmer stand against the minister. Mr Kamchorn preferred gentler persuasion.

Ironically, the group's moves began to see fruit when, in March, the finance minister sacked Mr Kamchorn and appointed in his place the deputy governor, Mr Chavalit Thanachanan, who had six months left before mandatory retirement. Mr Vijit became one of two deputy governors.

The finance minister was more co-operative with the new governor, but the prime minister, Gen Chatichai Choonhavan, and his advisers were still dissatisfied.

In August, the cabinet was reshuffled, an unhappy Mr Pramual was kicked upstairs to become deputy prime minister, Dr Virabongsa became finance minister, and a month later he put Mr Vijit in charge of the central bank.

Increases in interest rates, announced on November 23, are the first clear outcome of the new partnership. The decision is said to have been made without consulting the prime minister.

Mr Vijit is only the third governor to be appointed from within the bank. At 49, he could become one of the longest serving governors before being required to retire at 60, but there is now increasing talk of fixed terms for the post.In the 1960s, he won a central bank scholarship to study economics in Britain's Manchester University and he later received a master's degree in the US.

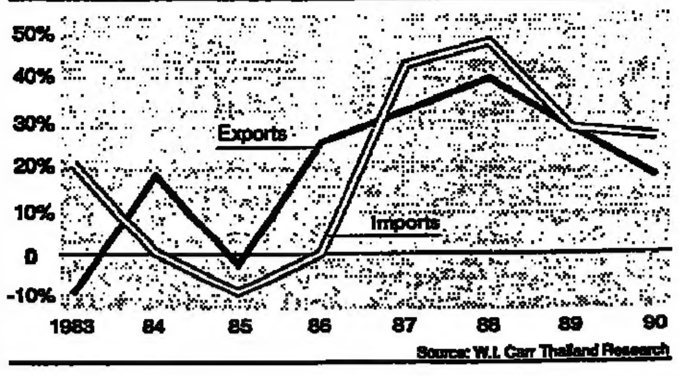
Mr Vijit's early years at the Bank of Thailand were at the Economic Research Department where he later became director. He has also been in charge of banking policy.

In the coming months he is likely to introduce further liberalisation of the banking sector, including additional relaxation on foreign exchange controls, and new rules on bank capital adequacy.

He is also likely to host the World Bank-IMF annual meetings in Bangkok in September, 1991.

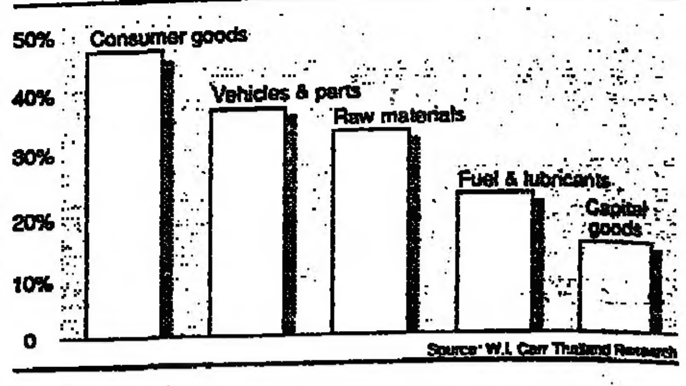
Peter Ungphakorn

Trade



Source: W.I. Carr Thailand Research

Imports 1989



Source: W.I. Carr Thailand Research

FOREIGN TRADE

Staple exports squeezed

WHEN Thai trade officials recently submitted proposals for Thailand's negotiating position in the Uruguay Round of trade talks to the Cabinet, a senior Minister responded: "Go ahead. Just do anything that will increase exports."

Attracting foreign investment and promoting exports have become obsessions for many government leaders. The reasons are obvious. Both have been important contributors to Thailand's recent economic growth, and, even in this slower year, exports are expected to have expanded by another 18 per cent to reach at least 611bn baht ($24bn).

But officials responsible for trade realise that Thailand's maturing economy brings with it new obligations if the country is to continue to benefit from export markets. And in one important issue, the Thai Government has cited international rules to justify taking potentially unpopular action – lifting its ban on cigarette imports.

What does concern the officials is to make sure protectionists in the industrial nations realise that, despite its recent promise, Thailand is still quite far behind the four Asian newly industrialising economies and is certainly not to be confused with Taiwan.

In Thai eyes, the office of the US Trade Representative (USTR) does not appear to have got the message. The USTR has threatened trade sanctions against Thailand on a number of issues in response to private sector complaints of unfair trade practices, particularly related to music and videotape piracy and to the lack of patent protection for new pharmaceutical inventions.

Thailand is still on a "watch list" of countries under threat of retaliation if they do not behave. Pleading the needs of development does not seem to carry weight with Washington's trade lawyers, Thais complain.

And friction between the two countries continues in a number of unresolved disputes, including US attempts to curb shipments of Thai textiles and garments, and deadlock in negotiations over airline flights between the two countries.

Lifting the ban on American cigarettes became a challenge to Thai national sentiment

Nevertheless, the export figures appear to support US denials that protectionism prevails. This year's export expansion has been achieved despite a decline in sales of some of Thailand's basic products. There was little hope that last year's 6m tonnes of rice exports could be matched, but production problems and declining prices for rubber, tapioca and tin, as well as rice, have slowed down the export earnings of Thailand's traditional products.

Therefore, manufactured products, led by textiles and garments, have continued to sell well. In the first half of the year, textiles products increased their export earnings by almost 25 per cent, compared with the first half of 1989.

With those kinds of growth rates in manufactured exports, Americans in particular reject claims that the US is becoming more protectionist. The US is Thailand's largest export market.

The true picture is more complicated. Thai industry could actually be benefiting in the short term from protectionism. Opinion is divided in the textiles and garment industries, for example, over whether quotas protect Thai exports from competition from more advanced nations, such as South Korea, and from lower wage countries, such as China and Bangladesh. (The industry is now generally in favour of phasing out quotas.)

And part of the increased investment for export is likely to be the result of manufacturers shifting production away from Japan, South Korea and other countries which have agreed to limit their sales to the industrial West, or have been targeted for anti-dumping actions. Steel pipes and Thai-assembled cars, particularly the Mitsubishis that are sold in Canada as Chryslers, are prime suspects.

A frequently asked question is why, with the economy so dominated by Japanese investment, there is little resentment against Japan. One reason is likely to be the economic expansion that has accompanied the growth in foreign investment in general and has increased Thailand's confidence. Another is that US threats of protectionism could have redirected Thai resentment away from the Japanese.

The nationalistic indignation that has been aroused by such threats is most vividly seen in the case of cigarettes. The US complained to the General Agreement on Tariffs and Trade that Bangkok's cigarette import ban violated GATT. It also threatened sanctions.

The Thai import ban was designed to protect the state-owned Thailand Tobacco Monopoly. But officially Thailand argued, unsuccessfully, that the ban was needed for public health reasons.

The Thai public saw all of this as bullying by the Americans and by GATT. Support mounted for an ailing anti-smoking campaign. Activist doctors admitted that initially they would have difficulty resisting the sophisticated marketing of foreign cigarettes, but welcomed the American action as having given a valuable, long-run boost to their campaign because the Government was persuaded to increase its anti-smoking budget.

Significantly, the Government cited the internationally agreed rules of GATT as justification for lifting the ban in October. The Thai public may know little about GATT, but Government officials increasingly see GATT's disciplines as a means of resisting unilateral action, such as the measures prescribed in the US Section 301.

That is why Thailand and the five other members of the Association of South East Asian Nations (ASEAN) have participated actively in the Uruguay Round of trade talks.

Peter Ungphakorn

INDUSTRIALISATION

Stage two begins

IN COMMON with most Thais, who generally dislike labels and shy away from the aggressive sounding "Tiger" tag, Dr Phisit Pakkasem, head of Thailand's National Economic and Social Development Board, prefers a term used by Japan's ex-foreign Minister Sabura Okita to describe Thailand's recent rapid industrialisation process.

Mr Okita called Thailand and Indonesia "the third wave of geese flying in the same formation" – behind Japan and the other Asian Newly Industrialised Countries (Nic's).

"Tiger" or "goose", the dramatic changes underway in the Thai economy are evident from one set of simple statistics. In 1960, agriculture contributed 39.8 per cent to Thailand's GDP. By 1990, despite growth in the agricultural sector, its contribution is a modest 14.2 per cent while manufacturing industry's share of GDP has grown from 12.5 per cent to 25.2 per cent over the same period.

Three basic factors explain the surge in Thailand's manufacturing base. Import substitution, competitive advantage and an aggressive export-orientated investment incentive programme. Although Thailand is now lowering some trade and tariff barriers, the country's average import tariff of 35.7 per cent remains high when compared with its Asean neighbours. These high import tariffs, particularly on consumer durables, have resulted in a substantial wave of foreign investment, particularly Japanese, aimed at producing goods for domestic consumption.

The leaders have been companies such as the Japanese electrical appliance manufacturers, car makers and others who have set up assembly operations. Often these operations represent little more than "screwdriver" plants assembling imported components.

The automotive sector, which will produce 290,000 vehicles worth 25bn baht this year, typifies this group of manufacturing companies. Since 1973, when the Thai government introduced an import substitution policy, the industry has been heavily protected through import restrictions, prohibitively high import duties, limits on series and models that can be produced and a ban on issuing new licences to assemblers.

These measures have worked to the extent that they limited imports but despite local content requirements they have not reduced the reliance of local assemblers on foreign auto companies, particularly the Japanese giants.

A second group of Thai manufacturing companies, which include those in the textiles and garments industry, electronics industry and many in the food processing sector, have been established, mostly with Board of Investment privileges specifically to take advantage of Thailand's substantial competitive advantage.

While textiles remain Thailand's biggest manufactured export, the electronics industry, with exports this year of around 78bn baht, is catching up fast. Since 1987 electronics exports have tripled in value. Mr Daniel Cloud, an industry analyst with W I Carr Thailand, part of the Banque Indosuez Group, predicts that "electronics will be Thailand's largest export industry five years from now". He also believes that at least one of the fast growing Thai electronics companies will emerge as a world class competitor.

Foreign companies will transfer only basic technology

The main reason for the surge in the Thai electronics industry is competitive advantage. Thailand's labour costs are lower than any of its major competitors and together with export privileges mean that the Thai electronics companies have roughly a 20 per cent cost advantage over their main competitors and can run very high margins, as high as 20-25 per cent for integrated circuit assemblers.

Many of the major Thai electronics groups are the local offshoots of big multinationals such as Toshiba, Sanyo and Minebea of Japan and Seagate of the US.

In Business Review magazine's latest top 1,000 company rankings, Seagate Thailand jumped into fifth place with revenues of almost 19.5bn baht.

The question of how Thailand's new industrial manufacturing base will develop over the next decade is high on the agenda of the nation's economic planners. Several specific trends are likely to emerge as Thailand moves to what Dr Phisit terms "stage two" of its industrialisation:

● First, industry is likely to become less labour and more capital intensive as wages rise eroding competitive advantage and industry begins climbing the technology ladder, moving from simple assembly operations or basic manufacturing through intermediate manufacturing towards more technology intensive and higher value added research and development, design, testing and manufacturing of finished products.

Two factors could limit this process in the short term, however. One is the emergence of a shortage of engineers, technicians and managers (which in turn reflects the relative lack of an established higher education, training and research infrastructure).

The second is a perceived reluctance of many foreign companies, particularly Japanese parents, to transfer more than basic technology.

● Second, industry is likely to become more geographically disbursed. Initially, industry has tended to gravitate towards Bangkok which has led to infrastructure problems, pollution and uneven income distribution.

Aside from market forces like the cost of land and labour availability, a new three zone system of graduated incentives introduced by the Board of Investment is designed to encourage greater geographic dispersal, particularly to the new petro-chemical and industrial complex at Map Ta Phut on Thailand's Eastern seaboard and potentially to the Southern Seaboard Development Project (which is still on the drawing board).

● Thirdly, industry will become more integrated. "We are expanding into a subcontracting industry, a component industry with more depth," says Dr Phisit.

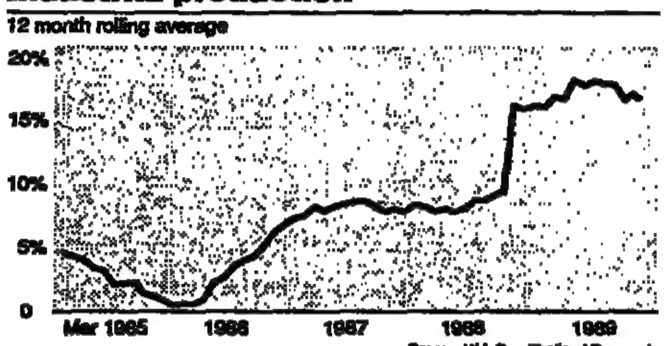
Paul Taylor

Terry Kirk

Crop disaster: a worker in a rice paddy in central Thailand where 80,000 farming families have lost crops due to an invasion of small insects known as the brown plant hopper.

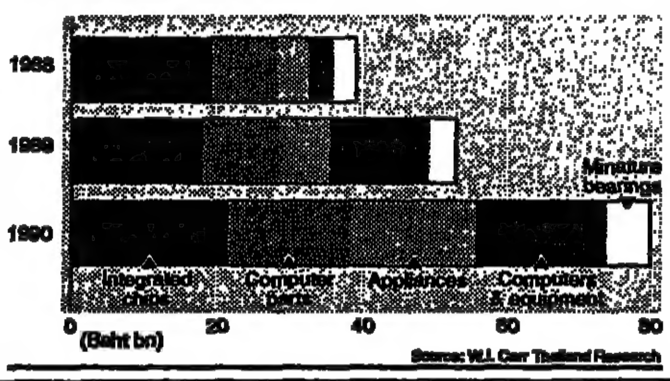
Industrial production

12 month rolling average



Source: W.I. Carr Thailand Research

Electronics exports



Source: W.I. Carr Thailand Research

Setbacks in agricultural output

Rice fields hit by pests and climate

AT THE beginning of the year, rice farmers all over central Thailand were enthusiasticly planting a new high-yield variety first promoted three years ago, called Suphan-60. But their enthusiasm was short-lived.

Disaster struck in the form of a small insect known as the brown plant hopper. By August, one agricultural expert assessing the damage was predicting gloomily: "I think we've seen the end of Suphan-60 forever."

More than 80,000 farming families lost 800,000 tonnes of paddy – unmilled rice – grown on 9m hectares, a cost of about 2.6bn baht ($100m). The plague was worst in Central Region provinces. The north east, increasingly becoming an important rice-growing region, was spared.

The brown hoppers were not the only setbacks for Thai agriculture. A typhoon towards the end of last year, followed by drought in some southern provinces, and new storms and flooding in Central Thailand this October, have all added to production declines this year.

The Agriculture Ministry estimates that the 1990/91 main rice crop, which is harvested from December to February, is down 11 per cent on the previous year at about 16m tonnes of paddy. Maize production is estimated down 17 per cent at 3.66m tonnes, and cassava is down 1 per cent at 20.56m tonnes.

Among the major crops, only sugar cane production appears to have increased, by an estimated 1 per cent to 34.01m tonnes.

The outlook for Thai farmers, who constitute two-thirds of the labour force, does not look good in a year when prices are also expected to weaken as world production continues to recover. And yet one of the problems, the plague of brown hoppers, could have been averted.

That, some experts believe, is the difference between the climatic disasters and the insect plague. Thailand could have learnt from the lessons of other countries. Instead, a tragic combination of apparently-favourable factors were allowed to do their worst.

Drought and other production problems in the main rice growing regions of the world in 1987 and 1988 had cut supply, drained stocks in the US, India and elsewhere, and lifted prices. Farmers in Thailand, where production recovered early, enjoyed a rare period of three consecutive years of good prices without bad harvests.

Last year, Thai exporters managed to ship out a massive 6m tonnes of milled rice, almost three times as much as any other country and by far the largest amount from Thailand ever in any single year.

The good prices provided the farmers, particularly those who had access to water, with the capital to invest in improving their production. Suphan-60 was also now available with its high yields.

Thailand may lose its place as the world's top rice exporter

But the good fortune was not what it seemed. The problem with Suphan-60 was that the brown hoppers loved it. Added to that, the high prices were encouraging farmers to plant Suphan-60 twice, three times a year. With such a continuous and plentiful supply of food, the insects thrived.

The use – or misuse – of pesticides only seemed to make matters worse. Research showed that in some locations only one animal species was found in the rice fields: the hoppers. All possible natural predators had been killed.

"That's terrifying," says Dr Ammar Siamwalla, agricultural economist and president of the Thailand Development Research Institute.

The problem was not new. When Indonesia introduced a miracle variety of rice in the mid 1970s, a plague of brown hoppers developed there too. "We're not learning from their lesson," Dr Ammar complains.

The Agriculture Ministry is now recommending alternative varieties with greater resistance to the brown hoppers and urging farmers to give their land a rest.

The problems with rice, and increasing competition from Vietnam, which exported two million tonnes last year, have revived speculation that Thailand might in the next decade cease to be the world's largest rice exporter.

The debate remains inconclusive, but the outcome could be serious for the 20m or so Thais whose main source of income is currently from rice. Many are already sending their children to school in search of other occupations, or planting crops.

Industrial development is starting to drive agricultural wages up. Even in some higher value crops such as fruits, adjustments are being made. Orchard owners in the Eastern Region are cutting down on rambutan (a fruit with hairy skin and flesh, similar to lychees, often exported in tins) and replanting with durian (a large fruit exported to other south-east Asian countries).

In order to remain competitive, Thai rice will have to be produced more efficiently and prices will have to remain strong unless the government starts to subsidise seriously – a move that would contradict Thailand's official stance as a member of the Cairns Group of agricultural exporters negotiating liberalisation in the Uruguay Round of Gatt talks.

So far, the expansion of Thai rice production has only been partly achieved through the Green Revolution, hence Thailand's experience with the hoppers. Although the expansion of acreage at the expense of forests has largely been for cassava, sugar and maize, some land has been used for rice.

The government has been criticised for fiddling with inadequate market intervention that fails to provide the desired support for farmgate prices. Instead, critics say, the government should be concentrating on improving agricultural technology, but not in a way that creates the kind of problem suffered this year.

Peter Ungphakorn

FOREIGN POLICY

Cambodian conflict is a dominant issue

The prime minister has sought to make a mark in international relations says PETER UNGPHAKORN

IN AUGUST, Air Chief Marshal Siddhi Savetsila, resigned as Thailand's foreign minister. During his ten-year tenure, he had acquired the stature of an elder statesman in the south-east Asian diplomatic scene. But during the last two years, he served under the premiership of Gen Chatichai Choonhavan, a former diplomat, who wanted to make his own mark in international relations.

Foreign policy, particularly over the Cambodian conflict, was increasingly determined by the prime minister's advisers, who are much keener than the foreign ministry to deal with the Vietnamese-installed Phnom Penh government.

This sometimes led to conflicting signals from Bangkok and left Thailand's diplomats with a difficult problem. Through foreign minister Siddhi they had proclaimed that they would leave international relations to Gen Chatichai and his advisers, underscoring the fact that Cambodia is the only international political issue of real interest to Bangkok. Instead, they themselves would concentrate on economic matters, such as preserving Thailand' interests in export markets.

The choice of Dr Subin Pinkayan as ACM Siddhi's successor seemed to re-inforce this situation. The new foreign minister had previously been in charge of the commerce ministry with responsibilities that included international trade negotiations.

But this also highlighted a problem for the foreign ministry, whose expertise in economic affairs is limited. There is little chance of the commerce ministry, which already handles trade negotiations and export promotion, handing over the tasks to the diplomats.

Rather, Dr Subin's appointment seems to be designed to accommodate Gen Chatichai's desire to stay in charge of foreign policy. As he lacks a strong background in this field, Dr Subin is more likely to yield to the prime minister's desires.

Dr Subin's qualifications are in civil engineering, and one of his first initiatives has been to improve ties with Laos by proposing co-operation in the construction of hydro-electric dams – much of the electricity produced in Laos is exported to industrially more advanced Thailand.

One of these projects would be a large and environmentally controversial dam on the Mekong river, which flows from Tibet and China, between Laos and Thailand, and through Cambodia and Vietnam.

Such a project would require settlement of conflict within the whole of Indo China (Laos, Vietnam and Cambodia).

It would be part of a massive UN-sponsored development programme for the lower Mekong, which has been restricted to smaller projects within individual countries since the Vietnam war and Hanoi's occupation of Cambodia.

Even before the withdrawal of Vietnamese troops from Cambodia a year ago, and despite repeated breakdowns in attempts to negotiate a settlement, officials of the Mekong Committee have expressed optimism that the larger-scale programme can be revived in updated forms.

However, the Cambodian conflict remains unsettled, and Gen Chatichai's advisers were blamed for making agreements even more elusive when the four warring Cambodian factions attempted in Bangkok earlier this year to set up a peace-making Supreme National Council.

The prime minister's personal desire to make his mark was not the only factor at play in the departure of the foreign minister. ACM Siddhi and some of his staff in the foreign ministry had failed to keep up with changing political forces. And this year, severe rifts unrelated to foreign policy developed within his own Social Action Party, one of the main coalition partners. Siddhi resigned both as leader of the party and as foreign minister.

A former head of the National Security Council, Siddhi took over at the foreign ministry at a time of intense antagonism between Thailand and Vietnam over Hanoi's occupation of Cambodia.

Although there were different shades of feeling about the issue among the six members of the Association of South East Asian Nations (ASEAN) – Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand – opposition to the Vietnamese-installed Government in Phnom Penh remained the strongest reason for unity within the group.

As Thailand prospered economically and Vietnam's problems increased, Thai confidence grew. When perestroika appeared in Hanoi, Thai businessmen were keen to start trading with and investing in a potentially large new market.

Before he retired early to enter politics a few months ago, even the former army commander, Gen Chavalit Yongchaiyudh, is said to have developed contacts with Hanoi. Previously, the military had been the most suspicious of Vietnam's motives.

One of the ideas put forward by Gen Chavalit, who clearly hopes to become the next prime minister, is for an economically prosperous South East Asian peninsula that might swing the regional centre of gravity away from other ASEAN countries and northward to Bangkok.

Thailand's fellow members in ASEAN, who have also frequently wondered since Gen Chatichai took over what exactly Thailand's foreign policy is, are not too keen on the idea.

Critics who had accused ACM Siddhi of being out of date nevertheless praised him highly for having brought integrity and coherence to foreign policy in a period when cabinet ministers appeared to be falling over each other in the scramble to achieve less scrupulous objectives.

Glyn Genin and David Hayes

Varied aspects of Thai life: a novice Buddhist monk (left) at the Dhammongkol Temple, Phrakhanong, Bangkok; centre, a girl filleting fish in Bangkok; right, at Koi Samoi, on the Gulf of Thailand, where monkeys are trained by handlers to harvest coconuts

Tourism boom starts to slow, writes **Paul Taylor**

Frowns in 'the land of smiles'

WITHIN the last decade, Thailand has engineered a phenomenal tourist boom turning itself into one of Asia's prime destinations, one of the "top ten" in the world, and, in the process, generating enviable economic results.

Ten years ago, fewer than 2m tourists a year visited "the land of smiles." But, by 1982, tourism had overtaken textile exports as the country's main foreign exchange earner and this year an estimated 5.37m visitors will visit Thailand – a 12 per cent increase over 1989 and more than double the number just five years ago.

Tourist revenues this year will reach about 110bn baht, almost four times the 1985 total of 31.77bn baht. Last year, the country's balance of international tourist trade (receipts less expenditure) was 77bn baht. Even allowing for the import of luxury goods to service overseas visitors – estimated by some economists to absorb up to half total receipts – tourism still made an important contribution towards bridging Thailand's perennial merchandise trade deficit. It has also created tens of thousands of new jobs.

Indeed, tourism has been used extremely effectively by the country as an economic development tool which other developing nations in the region are now trying to emulate. The success in attracting tourists perhaps owes as much to the promotional activities of the Tourism Authority of Thailand as it does to the nation's undoubted attractions which include political stability, a year-round tropical climate, palm-fringed white sand beaches, sea and mountains, historic past, deeply entrenched Buddhist culture, culinary delights, and of course the Thai people themselves.

The 30-year-old TAT has shrewdly and very successfully marketed Thailand to the increasingly affluent international globe-trotters of Europe, North America and more recently its East Asia neighbours, particularly Japan, Taiwan and Korea. East Asia and the Pacific region now account for about 60 per cent of all arrivals, and the average length of stay has been increased from five to more than seven days with a target next year of eight days.

Despite a slowdown in growth apparent even before before the Gulf crisis – which has halved arrivals from the Middle East – Mr Dharmnoon Prachuabmoh, TAT governor, still expects average growth of 7-9 per cent in the next decade and 10m to 12m visitors a year by the end of the century.

Not everyone, however, is so confident, at least in the short term. Some hoteliers are already reporting lower occupancy rates and fear the knock-on effects of a prolonged Gulf crisis could mean higher prices, charter flight cancellations and fewer international arrivals, particularly from Europe and North America.

But a "cooling-off" period of slower growth for an arguably overheating industry is seen by some economists as necessary, anyway.

They point to some serious challenges ahead for the industry, particularly infrastructure problems and pollution which, if they are not properly addressed, could derail the Government and TAT's ambitious longer term growth plans. Indeed, Mr Dharmnoon acknowledges that even 10m visitors a year "will require big investments in infrastructure".

Bangkok hotel prices are high. But a shortage of hotel rooms - currently there are 24,000 hotel rooms and 20,000 "condominium-hotel" rooms in the Thai capital – could soon turn into a glut if the 10-15 new hotels planned in Bangkok alone over the next three years are indeed completed.

Such fears are reflected in the share prices of quoted hotel groups on the local stock exchange, most of which are selling at below asset value.

The surge in tourist arrivals has also led to a shortage of airline seat capacity – even though 60 international airlines fly into Thailand – at peak times of the year like the spring "high season".

While the Government is attempting to address this problem by negotiating more bilateral air agreements, the failure of recent negotiations with the US is an ominous sign. Since over 80 per cent of tourists arrive by air, the tourism officials recognise that it will be necessary not only to ease congestion at Bangkok's Don Muang airport by building a second Bangkok airport but also upgrade regional airports which would also extend the economic benefits of tourism to other parts of the country – one of the TAT's primary objectives.

Plans to upgrade road and rail systems, and build Bangkok's first mass transit system, may also help ease the capital's notorious traffic jams and air pollution but there is also a need for more investment in electricity generation and water treatment plants.

Perhaps most pressing of all Thailand needs to clean up its tourism image and its environment. Senior TAT officials insist that Bangkok's "sex capital of the world" image is undeserved – indeed, TAT Governor Dharmnoon accuses the media of unfairly exaggerating stories of child prostitution and a growing AIDS threat.

He claims that AIDS and the even more prevalent Hepatitis-B are "not a big problem, if you educate people," and that while the media have emphasised the "negative side, most tourists are not here for sex".

Nevertheless, the TAT is attempting to move Thailand "upmarket" as a tourist destination with an emphasis on conventions, incentive tours, family travel and special interest or recreational travel – in part in response to a real threat of competition from countries like Indonesia and a potential threat from emerging destinations like Indochina.

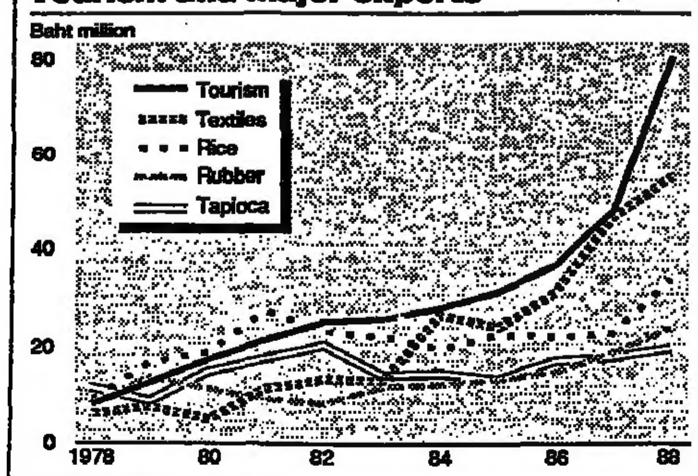
If this competition threat is to be beaten, and Thailand is to maintain its tourism growth, it must also do more to protect its environment. Reports of water pollution in tourist meccas like Pattaya and other resort locations have already prompted the authorities to undertake substantial clean-up programmes.

In Pattaya, for example, which has seen tourism grow from 930,000 overnight stays in 1986 to 1.7m last year, the Authority admits that "the rapid growth of the past few years has led to reckless development which in turn has resulted in the emergence of environmental problems." It adds that it has been aware of the problem "but has in the past been powerless to take any preventative action because of the bureaucracy involved."

Now the Authority is committing more of its budget, together with a 3bn baht loan from the Overseas Economic Co-operation Fund, to protect the environment around tourist destinations – "the byword for tourism should be utilisation and not exploitation," said Mr Dharmnoon at a recent seminar on tourism and the environment.

Bangkok's Golden Palace: allure of an ancient heritage

Tourism and major exports



Over 10,000 delegates expected

MORE than 10,000 delegates, their families and journalists will arrive in Bangkok next year for the annual World Bank/International Monetary Fund meeting.

In preparation for their arrival, a huge new conference centre is being built. Meanwhile, a joint committee including the Finance Ministry, the Bank of Thailand, hoteliers and the Tourism Authority of Thailand has been set up to co-ordinate arrangements – including the provision of more than 5,500 hotel rooms.

The meeting will be a real test for the authorities who oversee tourism in Thailand, but officials say they are confident that the country can rise to the challenge.